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# SBMA News

BY ALBERT CHENG, CEO, Singapore Bullion Market Association

While physical contact remains limited, the gradual resumption of business activities in Singapore has kept us busy over the past quarter. Here is an update of our activities in the final months of 2020:

**OCTOBER 29, 2020:** SBMA participates in the “Gold Demand Trends Q3 2020” webinar, organised by the World Gold Council.

**NOVEMBER 18, 2020:** SBMA attends the BestCities Global Forum 2020, themed “Rethinking the Future of Events”, organised by Marina Bay Sands, Singapore Tourism Board and the BestCities Global Alliance.



SBMA attending the BestCities Global Forum 2020 held at Marina Bay Sands Expo & Convention Centre.

**NOVEMBER 19, 2020:** SBMA holds its virtual Annual General Meeting (AGM).



SBMA members attending the virtual AGM held on Zoom and in person.

**NOVEMBER 26-27, 2020:** CEO Albert Cheng represents SBMA at the 17th Virtual India International Gold Convention. Albert was the moderator for panel discussion on “Global Gold Markets Post Covid-19”.

## Exploratory Meetings

Over the past quarter, we held in-person and virtual meetings with the following companies: a Bullion Bank, Foretell Business Solutions, InfiniGold, S.E.A. Bullion, Singapore Exchange, Tradair, and the World Gold Council on membership and matters related to market development.

## MEMBERSHIP

SBMA's total corporate membership as of 31 December consists of 41 companies, including three Category 1 members, 30 Local Associate Corporate members, seven Foreign Associate Corporate members, and one Affiliate member.

## UPCOMING EVENTS

6-8 June, 2021. Singapore

### Asia Pacific Precious Metals Conference (APPMC) 2021

APPMC, organised by the SBMA and supported by Enterprise Singapore, returns for its fourth edition. More information, updates and details of past conferences are available at:

<http://www.asiapacificpmc.com>.

*Event is subject to change due to current Covid-19 pandemic situation around the globe. SBMA is monitoring the situation closely and will follow government agencies' guidelines on resumption of conference. Details will be available at a later date.*

## About Crucible

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# ANNUAL GENERAL MEETING 2020: “A YEAR LIKE NO OTHER”

BY SBMA

“It’s been a year like no other, and one that no one could have predicted”, said SBMA Chairman Martin Huxley, kicking off the association’s first-ever virtual annual general meeting.

The pandemic, coupled with the postponement of APPMC, have limited SBMA’s outreach efforts. Consolidation within the industry, as well as strategic decision to exit by others, also resulted in the departure of several SBMA members, with only Rand Refinery joining as a foreign associate member.

**SBMA IS MAINTAINING ITS HIGH STANDARDS, WHILE PROGRESSING APPLICATIONS FOR SEVERAL PROMINENT NAMES AND IS OPTIMISTIC THAT THE MEMBERSHIP BASE WILL RETURN TO ITS INCREASING TREND**

“We want to grow our membership base and annual subscriptions, but we will not do this for the sake of it and where our integrity may later be questioned”, Huxley said, noting that SBMA is maintaining its high standards, while progressing applications for several prominent names and is optimistic that the membership base will return to its increasing trend.

The postponement of APPMC this year and shortfall in revenue will be realised in the current fiscal year. The past year also saw the expiry of

the Lead Grant, which SBMA has received from Enterprise Singapore for the last three years, requiring the association to find other revenue sources and cut costs.

“We remain prudent as an organisation, however, and focused on operating a self-sustainable business model. We have looked closely at our cost base, trimming this back wherever possible to the minimum levels possible”, Huxley said, urging members to consider allocating either a new marketing budget or increase their support in 2021 through sponsorship in Crucible, via the website, or other forms of contribution.

While SBMA regretfully had to cancel APPMC in 2020, the association managed to partner with SGX for its Commodities Unplugged seminar series with a two-day webinar on precious metals. The association’s online engagement has also grown amid the pandemic, with a year-on-year increase in website traffic of over 108% and increased page views of 71%.

SBMA has continued its work on the Phase 2 development of the Singapore Gold Hub Vision together with the World Gold Council and Enterprise Singapore, and is following guidelines from relevant authorities with regards to the gradual resumption of business activities and is in the midst of planning for a hybrid APPMC in 2021.

“It remains too early to commit, but we remain optimistic that there will be an opportunity to meet at physical events in some form as we return to normalcy”, Huxley said.

SBMA CEO Albert Cheng was similarly hopeful, highlighting how SBMA has managed to continue to play a role as a connector in the community and the region, despite the challenges brought about by the pandemic and said he “remains cautiously optimistic” in looking towards 2021.



# GOLD MARKET INTEGRITY: ADVANCING GLOBAL STANDARDS

BY SAKHILA M. MIRZA, *Executive Board Director and General Counsel, London Bullion Market Association (LBMA)*

Responsible Sourcing is a business-critical function in which all supply chain actors are accountable for advancing sustainable business practices.

Over the last decade, the global gold market has made significant efforts to address supply chain risks. Several parties within the market have made improvements based on lessons learnt, yet Responsible Sourcing standards can still be improved. In particular, LBMA has identified three strategic priorities, as explained below, that require particular focus to mitigate threats to the industry: (a) the responsible sourcing of recycled gold; (b) the elimination of cash transactions; and (c) the provision of support for responsible artisanal and small-scale mining (ASM).

In November 2020, LBMA wrote to major International Bullion Centres (IBCs) with recommendations that would help to advance global standards for responsible sourcing. LBMA defined IBCs as jurisdictions considered either a transit or trading hub for recycled gold, and jurisdictions that operate important market infrastructure for bullion trading activities.

Therefore, alongside Singapore, LBMA identified the following jurisdictions as IBCs: China; Hong Kong SAR; India; Japan; Russia; South Africa, Switzerland, Turkey; United Arab Emirates; United Kingdom; and United States.

## THREATS TO INDUSTRY

Not all IBCs operate to the same Responsible Sourcing standards and inconsistencies could have a significant impact on the international market, should they remain unaddressed.

Responsible Sourcing vulnerabilities can, and will, continue to cause industry fractures and loss of trust across the supply chain, regulatory bodies and the general public. It is therefore important to understand the provenance in order to safeguard that trust. However, doing so can come at a cost, with some supply chain actors disengaging from high-risk sources. In other cases, there is also potential for the provenance to become doubtful, especially in relation to recycled gold.

This means the following key areas require urgent action from IBCs to mitigate threats to the industry:

### *Recycled gold*

In 2018, 55% of gold processed by LBMA Good Delivery refiners was recycled compared to about 44% large-scale mining (LSM). LBMA recognises the importance of recycling for companies in addressing environmental concerns. However, recycled gold's traceability can be problematic as its provenance can be lost from one supplier to the next with due diligence standards diverging between counterparties.

### *Cash transactions*

Although several regulatory regimes prohibit the use of cash for high-value transactions, it remains the primary method of payment in many parts of the world. It is therefore vital that jurisdictions have robust anti-money laundering regulations with enforceable oversight powers. This would also help to reduce the risks of smuggling for hand-carried bullion.

### *Sourcing from ASM*

In 2018, just 1% of LBMA Good Delivery refiners' production was sourced from ASM. LBMA recognises the importance of engaging and maintaining relationships with ASM suppliers. This sector provides a livelihood for over 40.5 million people across the world, therefore formalising this sector, as opposed to disengagement, would help ASM gold enter supply chains legitimately.

## INTERNATIONAL BULLION CENTRE RECOMMENDATIONS

To instil trust in the market, LBMA has published recommendations that support the Organisation for Economic Co-operation and Development (OECD) Due Diligence Guidance framework and also recognises key findings from the Financial Action Task Force (FATF).

Responsible Sourcing is fundamental to all parties within the supply chain, who can all benefit from the assurance that bullion traded throughout the IBCs is responsibly sourced and aligned to

international requirements. The breadth of the activities undertaken within IBCs and the involvement of international counterparties mean IBCs can be vulnerable to responsible sourcing risks.

## TO HELP ADDRESS VULNERABILITIES TO RISK, LBMA IS KEEN TO WORK WITH IBCS TO IMPLEMENT OR DEMONSTRATE CONSISTENCY WITH THE RECOMMENDATIONS

To help address vulnerabilities to risk, LBMA is keen to work with IBCs to implement or demonstrate consistency with the recommendations. Each recommendation represents the overarching objective of integrity, trust and confidence.

1. Effective scrutiny and verification of local and regional supply chains.
2. Effective regulation of local and regional supply chains.
3. Effective enforcement powers.
4. Effective co-operation with local, regional and international organisations.
5. Develop ASM specific guidance to support and further legitimise responsible ASM supply.

All five recommendations are supplemented by a number of requirements to assist IBCs' practical interpretation of the measures set out above.

### ABOUT LBMA

LBMA is uniquely positioned to collaborate with IBCs. This is partially due to the LBMA Good Delivery List (GDL). LBMA sets the requirements to which refiners must adhere in order to qualify as a GDL refiner and sell gold to the Loco London market – the largest financial marketplace for precious metals.

The GDL is also relied upon by most major international markets, licensed and recognised by exchanges, central banks and traders worldwide. LBMA is also the vice chair of the OECD Multi-Stakeholder Group, focused on the development of the OECD Due Diligence Guidance and the supporting Gold Annex. All of this means that LBMA is well placed to collaborate and engage with IBCs, to advance standards that ultimately aim to address the integrity of the precious metals market.

### LBMA Responsible Sourcing Programme

A fundamental aspect of the GDL is that Good Delivery bullion can be trusted to be responsibly sourced. This chain of integrity is vital across the bullion market and has been the foundation for the continuous development of the Responsible Sourcing Programme (RSP). LBMA's RSP was set up in 2012 to consolidate, strengthen, and formalise existing standards of refiners' due diligence. The programme is based on the OECD Guidance, that provides detailed recommendations to help companies define their sourcing standards, as well as sets the five-step due diligence framework.

LBMA makes these OECD requirements mandatory for all GDL refiners who must be audited annually against the OECD Guidance by approved independent auditors. The refiners are then required to report the audit findings publicly.

Unlike any other industry programmes, the RSP is a commercial necessity for any major refiner and LBMA can ultimately remove a refiner from the GDL if the standards are not met. Compliance with the stringent RSP standards is, therefore, essential.

### WIDER ECOSYSTEM

Global effort amongst all the value chain actors, national authorities, as well as law enforcement agencies, is required to help address the threats. Industry Programmes, whilst necessary, have limitations in their legal authority, scope, applicability and enforcement resources. That is why it is important to collaborate with the various actors in the IBCs that make up the Responsible Sourcing ecosystem.

**Industry due diligence programmes:** These programmes seek to raise standards throughout the supply chain (mining, refining or retailing level) and can be enforced if any non-conformances are identified.

**National authorities:** Through regulatory change and law enforcement, national authorities provide the ultimate sanctions across the supply chain.

**Downstream actors:** Banks, electronics and jewellery companies can continue to collaborate with their suppliers to ensure that material is sourced and processed responsibly from beginning to end.

**Other stakeholders:** By identifying and escalating unique issues through investigative research, other stakeholders provide important support and feedback throughout the supply chain.

### COLLABORATION

It is fundamental that the wider ecosystem operates as one. This will help to mitigate threats to the industry while implement standards consistently throughout global supply chains. It will also mitigate the risk of re-routing supply to IBCs that might have different requirements.

A global effort is required to continue addressing the outstanding challenges and risks. LBMA is committed to working with all legitimate stakeholders but needs full engagement and co-operation as its own standards can only reach so far.

For more information on the LBMA Responsible Sourcing Programme visit our website at [www.lbma.org.uk](http://www.lbma.org.uk).

### Notes

- 1 [OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#), version 3, April 2016 (OECD)



In her role as General Counsel of LBMA and also as Executive Director of the LBMA Board, **SAKHILA MIRZA** works closely with the CEO on the strategic direction of the LBMA. Her role involves addressing all the legal and regulatory matters, the Responsible Sourcing Programme, market development initiatives, and lobbying efforts on behalf of members.





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# SHANGHAI GOLD EXCHANGE: BUILDING A BETTER FUTURE FOR THE GLOBAL GOLD MARKET

BY JIAO JINPU, *Chairman, Shanghai Gold Exchange*

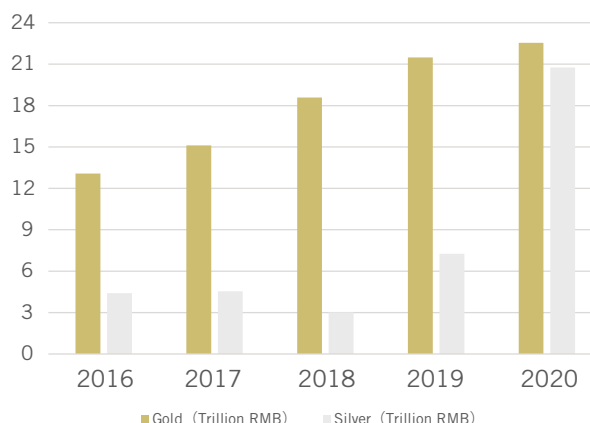
*SGE head office in Shanghai*

In October 2020, Shanghai Gold Exchange (SGE) celebrated its 18th anniversary. Two decades on, SGE has built itself as the engine of China's gold market, bringing a wide array of products, improved market structure and further liberalization, while serving as a bridge between the domestic and international markets via its Main Board and International Board.

The exchange currently boasts a multi-tiered, full-fledged market system that trades gold, silver, platinum and gold coins, covering market segments including price matching, benchmark price trading, price asking, quote-driven trading, leasing and gold ETFs. SGE has ranked as the world's largest exchange for physical gold trading for 14 years straight – in 2020, it recorded RMB 43.32 trillion (US\$ 6.71 trillion) in trading revenue, with 58,671.55 tonnes of gold and 4,214,652.42 tonnes of silver traded.

SGE's track record so far has been impressive, and yet challenges are ubiquitous. The coronavirus pandemic has significantly impacted global politics and trade, and its shockwave to the gold market was unprecedented. Against the backdrop of increasing uncertainty in economies and growing turbulence in the financial market, marketplaces in different time zones and regions are highly correlated, and therefore risks in one market, industry or field can easily be transferred to another. In the face of new risks and challenges, no single market could stand aloof. Quite the contrary – only by addressing challenges together through strengthened cooperation can all stakeholders in the market share opportunities for development and create a future with mutual benefits.

**Trading Revenue of Gold and Silver on  
SGE from 2016 to 2020**



## BLAZING NEW TRAILS

In recent years, SGE has spared no efforts to promote cooperation and connectivity with the international market, sharing the benefits of China's gold market reform, and bringing mutual development opportunities.

In September 2014, SGE launched the International Board, which has become a vital channel for international players to access the Chinese market. So far, 89 international members and 87 international institutional clients have contributed a total of RMB 17.4 trillion (US\$ 2.7 trillion) in trading revenue.

Meanwhile, SGE has enhanced connectivity with major international financial centers and marketplaces in Belt and Road countries over the past six years, as exemplified by the Shanghai-Hong Kong Gold Connect and the Gold Road Project that aims to tap gold industries in Belt and Road countries.

In April 2016, the world's first RMB-denominated gold benchmark price made its debut, followed by the first RMB-denominated silver benchmark price three years later. By cross-licensing with the CME Group, SGE has successfully introduced the benchmark price into the world's largest futures gold market with its listing of Shanghai Gold-based futures contracts. Together with SGE-listed NYAuTN contracts, which are based on the COMEX Gold Futures Asia Spot Price and denominated in CNY, the pair of innovative products have provided investors at home and abroad with a convenient way of accessing both markets. Since October 2019, the two products have respectively seen 243.6 tonnes and 241.18 tonnes in trading volume.

## ONGOING INFRASTRUCTURE REINFORCEMENT

In its 18 years of operation, SGE has made it a point to continuously improve its infrastructure and market services. Product innovation is on the right track. Seven gold ETFs have been newly listed, and exchange-traded physical gold options and multilateral price asking products are in development. Trading hours have also been extended to better link international marketplaces, and will be further lengthened to cater to market needs. In terms of infrastructure reinforcement, SGE has initiated the development of the 4th Generation of IT system to build a solid foundation for future growth.

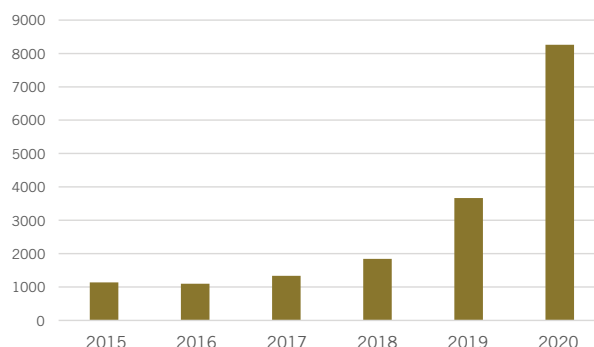
Risk management is also high on the agenda. SGE has been working on improving the central counterparty clearing and risk management system in line with the international Principles for Financial Market Infrastructure, and was accredited by the Chinese central bank as a qualifying central counterparty in 2020. Recognition of a third-country (non-EU) central counterparty is underway.

Meanwhile, the exchange has been proactively participating in global market governance. By holding up to the highest international bars, SGE is committed to building a more regulated and scientific "Chinese Standard" while taking into account domestic needs. SGE has been actively engaged in the kilobar standard initiative to provide a fair, fungible and trustworthy physical gold standard to market players. It will also continue its research and cooperation on responsible sourcing so that China continues to be a responsible country in the gold industry.



**JIAO JINPU**, Ph.D and researcher of Economics, is the chairman of Shanghai Gold Exchange and a member of the 13th Shanghai Municipal Committee of the Chinese People's Political Consultative Conference (CPPCC) and deputy director of its Economy Committee. He previously spent nearly 30 years at the People's Bank of China in a variety of roles covering research and policy formulation on financial reform, monetary policy, financial regulation, inclusive finance and financial consumer protection. He was also the general director of PBC's Financial Consumer Protection Bureau, and deputy director of its Research Bureau.

## Trading Revenue on SGEI (Unit: Billion RMB)



## USHERING IN A NEW CHAPTER

With the pandemic still raging, the international economic and financial situation is even more complicated and volatile with challenges and opportunities ahead. As such, SGE will focus on the following aspects to reinvigorate the market:

- Stick to business innovation. The exchange will offer more choices to the market by stepping up listing innovative products such as price matching options and performance-guarantee price asking contracts, while further exploring more scenarios for the reference of Shanghai Gold and Shanghai Silver benchmark prices.
- Pursue technological advances. SGE is determined to embrace technological innovation in support of technological development in the gold industry. Reinforced IT infrastructure and the application of state-of-the-art digital technology will empower a digitalised and intelligent gold market in the near future.
- Deepen win-win cooperation. China's 14th Five-Year Plan has proposed the general target of fostering a new development pattern where domestic and international markets can boost each other and building a new economy with a higher level of opening-up. In line with this national strategy, SGE will therefore seek new ways and possibilities to deepen cooperation and dialogue with international marketplaces and institutions in areas of product R&D, business expansion and information sharing.

Today, in the global gold market, all participants are interdependent. We all need to forge stronger communication and cooperation so the industry can collectively tide over challenges, and contribute our wisdom to a better future of the global gold market that will benefit all.



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# SINGAPORE RE-OPENS BORDERS FOR BUSINESS

BY SBMA

While the rest of the world is grappling with a resurgence in Covid-19 infections and another wave of lockdowns, Singapore Prime Minister Lee Hsien Loong said in a speech on December 14 that the country is ready to open its borders for business in a safe and controlled manner. Singapore's segregated travel lane for business travellers from all countries is expected to begin in the second half of January 2021.

According to the Ministry of Trade and Industry (MTI), travellers using the lane will be transported from the airport to dedicated facilities where they will stay and work, and undergo regular testing as part of health and safety protocols. They will be able to conduct meetings with local visitors and with other traveller groups, with safe management measures in place, while in the facilities.

This bodes well for the precious metals industry, as travel restrictions and decreased frequency of flights posed large logistical challenges given that industry transactions are generally cross-border, and a large part of the business depends on the free flow of people around the world.

**TRAVELLERS USING THE SEGREGATED BUSINESS LANE WILL BE TRANSPORTED FROM THE AIRPORT TO DEDICATED FACILITIES WHERE THEY WILL STAY AND WORK, AND UNDERGO REGULAR TESTING AS PART OF HEALTH AND SAFETY PROTOCOLS**

## EARLY EFFORTS

To contain the spread of Covid-19 in Singapore, the country entered into a nationwide "circuit breaker" on April 7 – a partial lockdown that required the closure of all non-essential workplaces and businesses, which lasted until 1 June, when the country embarked on a three-phased approach to safely resuming activities. During the safe re-opening period, businesses that operated in settings with lower risks of transmission were allowed to resume activities with Safe Management measures, but non-essential activities and social gatherings were still prohibited.

With community infection rates remaining stable and no new large clusters emerging, the country moved to Phase 2 on 19 June, which allowed small-group gatherings of up to five persons and the re-opening of retail businesses. Working from home remained the norm, and large-scale events and venues, such as conferences, exhibitions, concerts and trade fairs stayed closed.

At the same time, Prime Minister Lee announced that the country is ready to move to the next phase of its approach for the economy to resume business operations. From December 28, capacity limits will be eased in public places like malls and attractions, and at places of worship, and groups of up to eight will be allowed to congregate, up from the current maximum of five. Restrictions on workers returning to offices may also be relaxed.

Larger, in-person events are already on the cards for 2021. The World Economic Forum's decision to move its annual meeting from Davos, Switzerland, to Singapore in May is a vote of confidence by the international community in the country's management of the Covid-19 pandemic and its ability to host high-level events amid the current situation.

During this period workplaces were allowed to have up to half of their staff in the office, with employees allowed to be at their workplaces for half their working hours. In-person work-related events such as conferences and annual general meetings were allowed to take place at third-party venues from 22 October, with up to 50 persons per event. The Singapore Government also increased the number of "green lane" arrangements with other countries and territories to facilitate essential short-term business and travel.

The country managed to deal with Covid-19 adequately, with continued adherence to safe management measures, pre-event testing at large-scale and higher risk activities like wedding receptions, live performances, sports events, etc., and an expansion of digital contact tracing tools.



## SBMA MEMBERS LOOK FORWARD TO PHASE 3

Brink's, being a provider of essential services, could continue its business while observing government guidelines and safety measures and with reduced staff in the office. Currently, many staff are still partly working from home. Being an international transportation business, the closure of the borders, the great reduction in flight options and the increased airfreight rates all hamper our business, but we have adapted to the new reality and are working with whatever resources are available, constantly updating ourselves, as the situation remains very fluid. For Brink's and Brink's customers, the opening of borders and free flow of travellers are essential.

**JOS VAN WEGEN**, *Head of Brink's Global Services – Singapore, Malaysia, Indonesia & Brunei*

When the social distancing guidelines were imposed, we had to limit the number of clients visiting us and were unable to bring back all our staff back to the office to support the influx of clients due to the recent volatility in precious metals prices. We look forward to phase 3 as we can welcome more staff back to the office to support our clients' sellback and collection. Singapore has to open its borders as the country is dependent on global networking, trade, tourism and hosting global events. Moving to phase 3 with controlled and cautious opening of borders will only do Singapore's economy good and I am definitely looking forward to that.

**BRIAN LAN**, *Managing Director, GoldSilver Central*

The circuit breaker guidelines initially posted us a minor administrative disruption, but the company adapted quickly. We are now preparing for phase 3 and the reopening of borders. As we have five employees in Singapore, we will continue to rotate employees to work from home, but look forward to resuming business as usual. An interesting and positive observation during the lockdown is that it has forced our neighbouring country to engage in more business with us.

**ADRIAN GOH**, *Marketing Director, YLG Bullion Singapore*

In terms of phase 3, StoneX will continue to be guided by the Singapore Government and MAS. We are preparing for a greater return to the office, but will maintain a Team A/B structure as part of our BCP arrangements meaning a maximum of 50% of staff in the office at any one time. Rather painfully, this means it is approaching one year since certain members of our precious metal team were able to meet with others. No plans around overseas travel are currently being considered although, when permitted, this will be massively welcome on several fronts; including visiting existing clients, marketing trips, visiting overseas offices of StoneX, and industry networking and conferences. Increased passenger aircraft flights and capacity will hopefully drive back down some of the cost increases we have seen and reinstating routes that have been cancelled and/or severely disrupted. It is also worth mentioning that this does not relate to just gold and aircraft freight, with disruption and bottlenecks becoming increasingly evident in respect of sea shipments of silver.

**MARTIN HUXLEY**, *Global Head of Precious Metals, StoneX Group*

We initiated business continuity planning and remote access, pre-empting such a scenario, thus disruptions were minimal when the circuit breaker was imposed. During this period, we experienced high volatility and volumes, and the inconveniences of the circuit breaker were nonetheless felt especially in areas like logistical inconvenience and supply and demand inefficiencies with borders being shut down. For Phase 3, and as borders open, we look forward to having a more stable market and trading opportunities in the economy. We are hopeful that as Singapore goes into Phase 3 in 2021, and with its infrastructure, continued monitoring of the health situation, and good international communication, we look forward to increasing cross-border transactions.

**DAWN CHEN**, *Director, Global Sales and Trading, MTS Gold Group*

During the circuit breaker and phase 2, overall production output and productivity were compromised as a result of safe distancing guidelines for workplaces. We are certainly looking forward to phase 3 and are ready to comply with any new guidelines. We understand that such measures are of vital importance to protecting public health. While economic activities continue, safe distancing measures and workplace restrictions remain challenging for the business to achieve optimum production output and efficiency. It will be great to see more flexibility and to return to normalised workplace arrangements, without compromising on public health and safety. We are happy to see a further easing of public gatherings as it will bring back social and business gatherings and improve the viability of local businesses.

**KL YAP**, *General Manager, Refining Business Unit, Metalor Technologies (Singapore)*



# WGC - YEAR IN REVIEW

BY ANDREW NAYLOR, *Head of ASEAN and Public Policy, World Gold Council*

In this unprecedented year, gold has once again come to the fore as the asset of choice for investors looking for safety, diversification and portfolio growth and protection. Whilst consumer demand has declined, primarily due to coronavirus-related lockdowns and the record-high gold price, investment demand has offset these weaknesses. A combination of economic uncertainty and a low interest rate environment will likely be supportive of gold going forward.

The World Gold Council works to ensure that investors understand the role that gold can play. But that isn't our only role. We also work to improve industry standards and infrastructure to ensure gold, and the gold market, operates with the highest integrity and trust.

## INVESTMENT DISTRIBUTION

One of the World Gold Council's strategic priorities is making the case for gold to institutional asset managers and owners worldwide. To that end we have built out an investment marketing and distribution function in Singapore to focus on institutional asset ownership in the country and the region. Over US\$3.5 trillion of assets are managed out of Singapore, making it one of the top wealth management centres globally.

**ONE OF THE WORLD GOLD COUNCIL'S  
STRATEGIC PRIORITIES IS MAKING  
THE CASE FOR GOLD TO  
INSTITUTIONAL ASSET MANAGERS  
AND OWNERS WORLDWIDE**



To increase awareness of the role of gold in portfolios we have produced a number of tools and reports this year, including one on the case for gold in Singapore – our research team analysed a typical SGD-denominated portfolio and assessed the impact and relevance of an allocation to gold. Looking ahead to 2021, we will be launching similar analysis for other markets, including Australia, and we will be publishing our annual outlook in January.

We recently updated Qaurum, our gold valuation framework and web-based quantitative tool that helps investors intuitively understand the drivers of gold's performance. Specifically, Qaurum demonstrates how gold may react across different macroeconomic environments.

#### SINGAPORE MARKET DEVELOPMENT RECOMMENDATIONS

As part of our market development work we undertook a survey of bullion market participants and stakeholders earlier this year. The purpose of the survey was to identify new opportunities for gold market growth in Singapore, building on the work that has already been undertaken here through the leadership of SBMA.

Following the survey, we launched a set of recommendations designed to catalyse additional demand for gold (both retail and institutional) and promote Singapore as a regional gold hub. These recommendations included positioning gold in financial sector industry development initiatives such as wealth management and fintech, codifying best practices for retail gold products to boost consumer trust and confidence, and working towards industry agreement on kilobar integrity.

**THE RETAIL MARKET IS A KEY DRIVER OF GOLD DEMAND, PARTICULARLY HERE IN ASIA, WHICH COLLECTIVELY ACCOUNTS FOR OVER 50% OF GLOBAL CONSUMER DEMAND**

#### RETAIL GOLD INVESTMENT PRINCIPLES

The retail market is a key driver of gold demand, particularly here in Asia, which collectively accounts for over 50% of global consumer demand. To ensure the retail market operates to the highest of standards, and that trust and confidence in the sector is maintained, we created a set of principles for the retail gold market, the Retail Gold Investment Principles (RGIPs). These principles are designed to set the bar for product providers across the market and further encourage retail investors to place their trust in gold. It is envisaged that greater trust will benefit customers and product providers alike, creating value and driving demand across the retail gold industry.

The RGIPs are aimed primarily at the providers of unregulated gold investment products, encouraging best practice, so that customers can feel confident in this important market segment. We are working on a roll-out programme in some of the most important retail markets including India and Germany, and we will be engaging with industry in Singapore, the rest of Southeast Asia, and Australia in the coming months.

#### SUSTAINABILITY

Sustainable finance has been, and will continue to be, a major driver of industry behaviour. The World Gold Council and its members have long believed that responsible gold mining can support sustained socio-economic development for the communities and countries that host gold mining operations. Last year we launched the Responsible

Gold Mining Principles (RGMPs) – a new framework that set out clear expectations for consumers, investors and the downstream gold supply chain as to what constitutes responsible gold mining.

**THE WORLD GOLD COUNCIL AND ITS MEMBERS HAVE LONG BELIEVED THAT RESPONSIBLE GOLD MINING CAN SUPPORT SUSTAINED SOCIO-ECONOMIC DEVELOPMENT FOR THE COMMUNITIES AND COUNTRIES THAT HOST GOLD MINING OPERATIONS**

To build on this, and raise awareness of the positive action the industry is taking, we released a new report on gold mining's contribution to the UN Sustainable Development Goals (SDGs). The report looks at how World Gold Council members are bringing about positive change across four thematic areas: global partnerships, social inclusion, economic development, and responsible energy use and environmental stewardship. The report also shines a spotlight on three topical themes including artisanal and small-scale mining (ASM), how the pandemic has reinforced the premise of the SDGs, and gold's role in new technologies, including those supporting the energy transition.



**ANDREW NAYLOR** joined the World Gold Council in 2016 and is responsible for its activities in the region – institutional investment, government relations, and public policy initiatives. Prior to this role, he worked for international consultancy firm Cicero Group advising financial institutions on foreign investment and trade policy in Asia and regulatory reform. Andrew has been a board member

of the European Chamber of Commerce in Singapore since 2012 and was chairman of its financial services committee from 2012 to 2014, and treasurer from 2014 to 2016. Andrew has a degree from the London School of Economics and Political Science. In his spare time Andrew enjoys sailing, and volunteers for Singapore's National Parks Board (NPB) and the LSE Alumni Association of Singapore (LSEAAS).



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# GOLD INVESTMENTS DURING A RECESSION: BE SURE OF WHAT LIES BENEATH

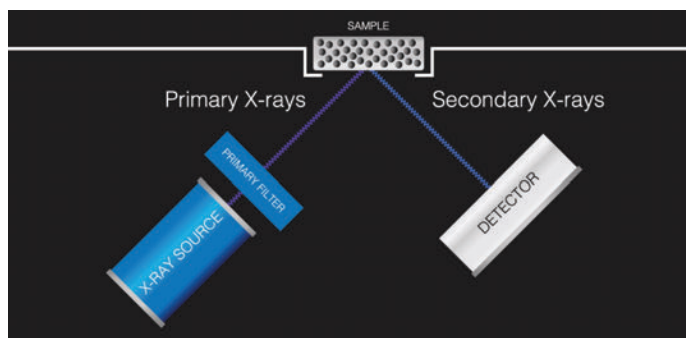
BY GAVIN SOON, *Senior Sales Manager Asia, Hitachi High-Tech Analytical Science*

Gold is one of the most attractive forms of investment, resonating with current economical practicalities as well as age-old traditions of many cultures. Gold is also typically viewed as a safe-haven asset, given inflation, depreciating currencies due to various economic factors, and global uncertainty. In an uncertain economic environment with soaring gold prices, investors might buy more gold bullion, coins, bars or ingots, but individual customers tend to buy only what they need, causing a dip in sales at gold shops. On the other hand, pawn shops will experience an uptick in the redemption of gold valuables, with gold owners cashing in their holdings. These transactions have resulted in an increase in the number of fake gold scams all over the world, including recent prominent cases in Malaysia, China and Thailand, where millions of dollars have been lost.

## ACCURATE ANALYSIS PIECE BY PIECE

The real value of jewellery and gold bullion is largely determined by the precious metal's elemental composition. X-ray fluorescence (XRF) enables quick and easy testing of precious metals in an accurate and non-destructive manner. XRF precious metal analysers enable testing to be conducted without the need for chemical assay, fire assay or alternative testing methods.

All XRF instruments are designed around two major components, an X-ray source, commonly an X-ray tube, and a detector. Primary X-rays are generated by the source and directed at the sample's surface, sometimes passing through a filter to modify the X-ray beam. When the beam hits the atoms in the sample, they react by generating secondary X-rays that are collected and processed by a detector.



The X-rays emitted by the atoms in the sample are collected by a detector, and processed in the analyser to generate a spectrum showing the X-ray's intensity peaks versus their energy. As we have seen, the peak energy identifies the element. Its peak area or intensity gives an indication of its amount in the sample. The analyser then uses this information to calculate the sample's elemental composition. The whole process from pressing a start button or a trigger, to getting the analysis results, can be as quick as two seconds or it can take several minutes.

## HITACHI'S PRODUCT RANGE

Hitachi's XRF analysers for precious metals make determining gold (Au), silver (Ag), platinum (Pt) and palladium (Pd) content fast and easy. They can also be used to verify rarer precious metals such as osmium (Os). Apart from determining precise composition, the instruments also measure plating thickness, such as gold coatings on copper alloys and rhodium coatings on gold alloys. With a minute measurement area and high accuracy, checking the composition, exact karat weight, plating and integrity of each piece is simple.

Hitachi's gold spectrometer product range includes two non-destructive XRF analysers: the benchtop X-Strata920 microspot XRF analyser or the lightweight and handheld X-MET8000 XRF gun, depending on the verification process.

The X-Strata920 XRF gold testing machine is ideal for hallmarking centres, gold refineries, smelters and test labs. It is a high-precision instrument that can accommodate a wide range of pieces, with the ability to measure small features on pieces, such as links, clasps, settings and mounts. The ability to choose between several collimator, chamber and base configurations makes the X-Strata an extremely versatile instrument that delivers accurate results for the tiniest of features.

The X-MET8000 handheld XRF analyser is ideal for gold purity analysis on the go. It weighs only 1.5 kilograms, and as such, is ideal for small spaces. The "point-and-shoot" feature makes it easy for pawn shops, jewellery shops or verification authorities to get the karat value, classification or composition of the precious metal on-site, depending on the need. It comes with a light stand as standard for the Expert model and an optional benchtop stand, a very popular accessory for precious metal and jewellery testing.

To find out more about the range of analyzers for precious metals, visit [www.hitachi-hightech.com/hha](http://www.hitachi-hightech.com/hha)



**GAVIN SOON** has over 20 years of experience in analytical instrumentation with solid technical expertise and understanding of spectroscopy applications, markets and customer needs.

# All that glitters may not be gold

## Find out the easy way with XRF analysis

Hitachi's XRF analyzers for jewellery make determining gold (Au), silver (Ag), platinum (Pt) and palladium (Pd) content fast and easy. They can also detect low levels of restricted substances, like lead (Pb) or cadmium (Cd), to ensure all pieces meet current regulations.



**X-STRATA920**



**X-MET8000**

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# THE FUTURE OF THE GOLD INVESTOR

BY VIKAS SHENOY, *Head of APAC Origination & Partnerships, InfiniGold*

Over the past two decades, economic activity has made a gradual shift toward the digital realm, with today's largest companies intrinsically linked to the world of the internet, digital commerce and digital infrastructure. In fact, internet-centric technology has probably been the single most important means of allowing companies and individuals worldwide to carry on with their businesses and lives during the Covid-19 lockdowns.

The pandemic has accelerated digital adoption in 2020 – and this could well be the inflection point for the investing community. Financial investing is becoming more mainstream, with the ubiquitous adoption of smartphones enabling access to mutual funds, ETFs, stocks, commodities, and more. Robinhood, the notoriously popular trading app, has been attributed, rightly or wrongly, to some seemingly inexplicable moves in the stock market. Now valued at nearly US\$14 billion, it boasts more than 13 million users. Revolut, another fintech giant, has reinvented itself from a travel solutions provider to a fully-fledged digital bank, now offering commodities and crypto trading.

In parallel, there is a not-so-silent revolution brewing in the cryptocurrency space. The past year has seen cryptocurrencies shed some of their taboo and integrate with traditional finance. Square, the American payments firm led by Twitter CEO Jack Dorsey, invested US\$50 million in Bitcoin, while Paypal will soon enable customers to buy, sell and spend cryptocurrencies within its ecosystem of 26 million merchants. Marking a first among traditional banks, DBS plans to launch a digital currency exchange, bringing cryptocurrencies under a regulated regime in Singapore.

## GOLD AND THE GOLD INVESTOR

Gold has a unique place in an investor's portfolio, having proven its worth over centuries as a store of value, hedge against inflation, and an asset beyond the reach of over-zealous central banks and politicians. Yet for the next generation of investors, gold will have to compete with ETFs, stocks, mutual funds and cryptocurrencies for a place in their portfolios. The average age of a Robinhood user is 31 years, while the average age of a Revolut customer in Singapore is 35. Would they want to store and insure a kilobar of gold in a vault for a hefty fee? Or would they demand easy, instant access to gold in a quantum of their choice, where they can sell or exchange instantly and securely?

In its recent report on Chinese retail gold business, the World Gold Council highlighted that gold is a vital component of the Chinese investor portfolio, with six of the top 11 investment products linked to gold (bars, coins, jewellery ETFs, etc.). Also, the two major drivers of gold investment are simplicity ("easy to buy and sell") and "no complicated arrangement or management") and reassurance (counterfeit gold and storage issues).

When reporting on US retail gold investing trends, the World Gold Council stated that over one-third of US investments is made exclusively online, led by cryptocurrencies. It also noted that "there are further untapped opportunities to deliver gold through digital platforms". Again, it was stressed that "the foremost driver is simplicity. They want products that they understand, that are accessible, and that are easy to buy and sell".

To address these concerns and make gold a freely investable asset, there are two key methods available: digitisation and fractionalisation.

- Digitisation broadly refers to a digital representation of the underlying physical gold asset in an immutable and secure manner, via an ETF, digital certificates, or tokenised assets.
- Fractionalisation is the ability to buy or sell a fraction of gold, much like with fiat currencies.

There are a few companies taking the lead in providing the necessary technological rails for the precious metals industry to cater to this need.

InfiniGold, for example, has enabled The Perth Mint to "virtually" open up its vault to the average investor looking to purchase gold without the hassle or cost of storage, security or ongoing fees. Gold, backed by the Government of Western Australia, can be bought for as low as US\$0.02 at any time from anywhere.

Another example is Icecap, which launched its diamond-backed token earlier this year, enhancing the gem's accessibility and liquidity, resulting in free price discovery and a much fairer market. Previously, purchasing diamonds on the retail market yielded an instant loss, as several brokers and intermediaries would already have taken a share of the profits by that point.

Uphold, a financial services company, combines a platform app with payment rails, enabling users to spend 30+ currencies, including tokenised gold, on their debit cards. So, in theory, you could buy your Starbucks coffee with gold! In countries with unstable political regimes or hyperinflation, there is clear value in developing gold as a reserve currency alongside the US dollar.

## HOW TOKENISATION CAN TRANSFORM THE GOLD INDUSTRY

Tokenisation simply refers to converting an asset into a cryptographic token on a blockchain database. At the heart of it, it is just another secure way to represent the value of the underlying physical asset.

As the world continues to weather the coronavirus crisis, global supply chains remain disoriented and disrupted, with globalisation curtailed. It's never been more important for companies in emerging markets to access liquidity and keep supply chains moving efficiently. Tokenisation provides a new way for companies to effectively tap into digitisation – opening up the sector to an entirely new demographic of global investors, and creating a new business model for sustainable international trade.

Several leading commodities companies have piloted tokenised products over the past 18 months. For example, Nor Nickel, the Russian smelting giant, is in the test phase of tokenising palladium, cobalt and copper.

There are a handful of popular gold-backed tokens in the cryptocurrency space. These gold tokens cater to the new-age digital asset investor, who want to store and grow wealth within the cryptographic ecosystem. Barring the presence of a handful of gold companies like The Perth Mint and MKS, the gold tokenisation ecosystem needs active involvement from traditional gold refiners and jewellers to provide legitimacy, regulation, and the necessary direction to the industry.

It is becoming increasingly evident that digitisation of commodities and the advent of related cryptographic currencies are here to stay. The gold industry has historically been slow to adapt to and adopt new technologies; not being at the centre of this rapidly evolving digitisation conversation may prove detrimental to the long term-interests of the industry and the investor community.



**VIKAS SHENOJ** is Head of APAC Origination & Partnerships at InfiniGold, a commodities digitisation company that provides a Platform-as-a-Service (PaaS) offering to the precious metals industry. Prior to joining InfiniGold, Vikas spent nearly 10 years in commodities sales and trading with Société Générale, ANZ Bank and Deutsche Bank, across Mumbai, London and Singapore.



# PLATINUM SET TO SOAR

BY WEIBIN DENG, *Head, Asia Pacific, World Platinum Investment Council*

While the Covid-19 pandemic negatively impacted the global economy on an unprecedented scale, investment demand for platinum has grown as increased global risk and monetary and fiscal policy responses to the crisis boosted the appeal of precious metals, including platinum.

In 2019, investment demand accounted for 15% of total platinum demand, a figure that is expected to rise to 21% in 2020. Prior to 2019, investment demand over the preceding six years ranged between 0–11%, with improving market fundamentals driving the recent growth in demand. Investors now see a compelling case predicated on the future demand growth for platinum. The World Platinum Investment Council (WPIC) forecasts that the large global market for platinum will record a third consecutive deficit in 2021, a situation not seen since 2016.

The platinum market has had to weather the turbulent economic impact of this year's Covid-19 pandemic, which has affected both demand and supply in a variety of ways. Supply in 2020 is down by 18% on pandemic disruptions and a severe converter plant processing outage in South Africa. At the same time, demand in 2020 is down by only 5% as economies have recovered quicker than expected and investment demand rocketed. This has caused a platinum market deficit in 2020 forecast at 1.2 million oz. and another deficit of over 220 koz. in 2021.

Our partners in the United States, Europe and Japan reported a surge in consumer buying of platinum investment bars and coins in 2020. Similarly, through our Chinese partners, we were acutely aware of the response in China to the low platinum price, with sales of platinum on the Shanghai Gold Exchange (SGE) up significantly in 2020. This

**OUR PARTNERS IN THE UNITED STATES, EUROPE AND JAPAN REPORTED A SURGE IN CONSUMER BUYING OF PLATINUM INVESTMENT BARS AND COINS IN 2020**

was a prudent value response by long-standing manufacturers in platinum, from the industrial and jewellery sectors, increasing stock levels for short-term or long-term benefit. Our work and the efforts of our partners have increased awareness and availability of platinum and fuelled the exceptionally strong demand for bars and coins.

## WPIC IN ASIA

In 2017, WPIC entered China, platinum's second-largest market in terms of consumption, aiming to develop an investment market for platinum. We adopted a comprehensive strategy for market development. First, we addressed the lack of relevant market



information by providing high-quality platinum market content and insights for Chinese investors. WPIC disseminates its market research in Chinese to investors via social media (Wechat, Weibo, Tik-Tok and Bilibili), internet media and traditional media.

Second, we concluded strategic partnership agreements with domestic industrial bodies, including China Gold Association and Beijing Gold Economy Development Research Centre. These partnerships have helped WPIC to better understand and emulate the success of China's gold investment market and consolidate resources to assist our mission in China. We successfully added platinum into the key events for gold and precious metals in China and increased the visibility and investment awareness of platinum among domestic gold investors.

Finally, over last three years, WPIC has established product partnerships with domestic organisations, including Bank of China (BOC), Chunghai Platinum, Zijin Gold, Jingxin Gold and LPM Group. We assisted Chunghai and Jingxin to fabricate and launch the first platinum bars in China for retail investors, and offered ongoing support for their respective marketing and promotional activities. BOC is one of the few Chinese banks that already offer physically backed platinum trading accounts, as well as gold and silver products, to investors. WPIC stepped in to help by providing platinum content for its investor education initiatives and by supporting its marketing efforts. So far, we have trained more than 3,000 bankers across China and equipped them with platinum knowledge and risk management skills. The marketing impact we have had on BOC's platinum business is unprecedented in terms of the increases seen in both trading volume and the amount of physical platinum held.

## WPIC'S RECENT PLATINUM GROUP METALS SUMMIT IN SUZHOU, CHINA, FOCUSED ON THE STRATEGIC IMPORTANCE AND VALUE OF PGMs, PARTICULARLY PLATINUM

WPIC's recent Platinum Group Metals summit in Suzhou, China, focused on the strategic importance and value of PGMs, particularly platinum, in new energy and new material, amid the fast-growing hydrogen economy and fuel cell vehicle industry. Despite the pandemic, the summit attracted more than 400 attendees, along with 17,000 delegates globally who joined virtually. The market potential for platinum investment in China is huge, reflected by the success of gold, but its market infrastructure, particularly for trading, is still underdeveloped. To this end, WPIC has actively been working with domestic organisations on improving the market infrastructure and jointly develop a market ecosystem for platinum investment.

Japan is the most mature market for platinum bars and coins, with active two-way trade a feature for over 70 years. It also experienced unprecedented demand for platinum bars and coins in 2020. WPIC has two product partners in the country: Tanaka and Mitsubishi UFJ Trust and Banking, and provides support to their respective platinum products, accumulation plans and a physically backed platinum ETF. We have also partnered the Japan Bullion Market Association (JBMA) to increase the awareness and ownership of platinum by distributing our research and insights in the Japanese language, which has also raised the organisation's profile among Japanese institutional and retail investors.

In November 2020, ABC Bullion, Australasia's largest independent bullion dealer, partnered with WPIC and launched the first Australian platinum minted bar range to meet the growing demand. This is the latest development indicating a strong potential for platinum investment in the Asia Pacific region. WPIC is keen to work with more partners and bring this unique metal to investors in Asia Pacific at a time of unprecedented levels of investor interest around the globe.

## IN NOVEMBER 2020, ABC BULLION, AUSTRALASIA'S LARGEST INDEPENDENT BULLION DEALER, PARTNERED WITH WPIC AND LAUNCHED THE FIRST AUSTRALIAN PLATINUM MINTED BAR RANGE TO MEET THE GROWING DEMAND

### OUTLOOK FOR 2021

Platinum plays a key role in decarbonisation and the growth of green hydrogen. Material demand growth from this will be realised within 5 to 10 years. However, the interest of many investors, who had not previously considered platinum, has been piqued by this strategic underpin to its long-term demand. When these investors take a closer look, they will see platinum's deep discount to gold and palladium and the cost effectiveness and low CO<sub>2</sub> of the mild-hybrid diesel powertrain, which greatly enhance the likelihood of platinum investment demand growth.

Since the platinum and gold price lows of 19 March 2020, at US\$599/oz. and US\$1,474/oz. respectively, platinum has significantly outperformed gold, rising 55% versus gold's rise of 33% by the end of August. With investment demand and platinum's fundamental outlook up in 2020, this significantly enhances its attractiveness.

### ABOUT WPIC

Headquartered in London, the World Platinum Investment Council (WPIC) was formed by the leading platinum producers in 2014. Today, our members include Anglo American Platinum, Impala Platinum, Northam Platinum, Royal Bafokeng Platinum and Sedibelo Platinum. WPIC's mission is to stimulate investor demand for physical platinum through both actionable insights and targeted development: providing investors with the information to support informed decisions regarding platinum and working with financial institutions and market participants to develop products and channels that investors need.

In working with major financial institutions such as commodity exchanges, investment product developers, fund managers and banks and brokers, WPIC's aim is to form a global platinum market ecosystem to jointly develop platinum investment products and expand distribution channels suitable for investors at the regional level. For example, we have partnered with refiners, mints, wholesalers and retailers who are deeply involved in providing physical platinum investment products, such as coins and bars, for investors. Through these partnerships, we aim to ensure that attractive platinum investment products are available to investors in major investment markets around the world.



**WEIBIN DENG** is WPIC's regional Head for Asia Pacific. He joined WPIC in 2017 from BNP Paribas and set up its China office in Shanghai. He previously worked in New York and Singapore for 16 years, serving global banks in the commodity market, including BNP Paribas, JP Morgan, Credit Suisse, and Bank of America. Prior to WPIC, he helped BNP Paribas set up its China commodity desk for nonferrous metals and precious metals business.

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# FURTHER UPSIDE FOR PRECIOUS METALS PRICES IN 2021

BY NIKOS KAVALIS, *Founding Partner, Metals Focus*

The outbreak of Covid-19 that shook the world in 2020 also had a dramatic impact on precious metals markets. Lockdowns around the globe hit key end-use sectors directly. The impact of the crisis on incomes and consumer sentiment further suppressed demand, especially for discretionary segments such as jewellery. Yet perhaps most importantly, the unprecedented fiscal and monetary policy response by authorities around the world fuelled price rallies.

As 2021 begins, it is clear that the pandemic will remain a problem to varying extents for much of the year. Even under the most optimistic projections for vaccine development and, more crucially, production, it will take months before a critical mass of the world's population is vaccinated. Policy accommodation will also no doubt continue, providing much-needed support to troubled economies around the world.

## GOLD

Last year, gold rallied to a new all-time high of \$2,075 in early August and although the metal has since suffered liquidations, its price at the beginning of 2021 stood at over \$1,900. Gold's price strength was the result of strong buying by institutional investors over much of the year. This was in turn fuelled by safe haven interest and an increasingly bullish outlook for gold, owing to fiscal and monetary policy stimulus.

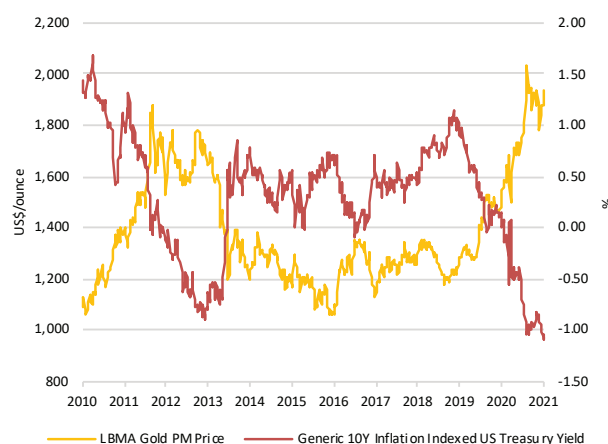
The jewellery industry was, in contrast, in dire straits for much of 2020. Retail demand was hit hard by lockdowns, reduced discretionary spending as a result of economic uncertainty, and rising gold prices. This was particularly true in Asia. Metals Focus' full-year figures have not yet been finalised, however in the November edition of our Five-Year Forecast, we expected Asian jewellery consumption to fall by 35% in 2020. China and India, which historically accounted for as much as 60% of global consumption, were both forecast to decline by around 37%. Stronger physical investment (covering bar and coin demand) was expected to provide a small offset. This was centred on Western markets, where investor appetite was very strong, and in fact, volumes would have been even higher, were it not for restrictions and, at times, product shortages. East and South Asian countries were instead expected to suffer declines.

Turning to 2021, Metals Focus remains bullish towards gold. We are confident that as policy rates remain low and fiscal spending persists, inflows of institutional money into the yellow metal will continue. Low rates and yields are typically positive for gold, as they minimise the opportunity cost of holding the zero-yielding metal. Moreover, given exceptionally low yields (or, in other words, high bond prices), the effectiveness of bonds as a hedge against market turmoil, and in particular equity market corrections, is hampered as it becomes harder to see yields fall much more. This forces investors towards other portfolio diversifiers, something that should continue to benefit gold. Related to this point, policy accommodation has resulted in

exceptionally strong equity market performance. While this has been a boon for investors, it also amplifies their need to diversify portfolios and gold will remain an instrument to do so.

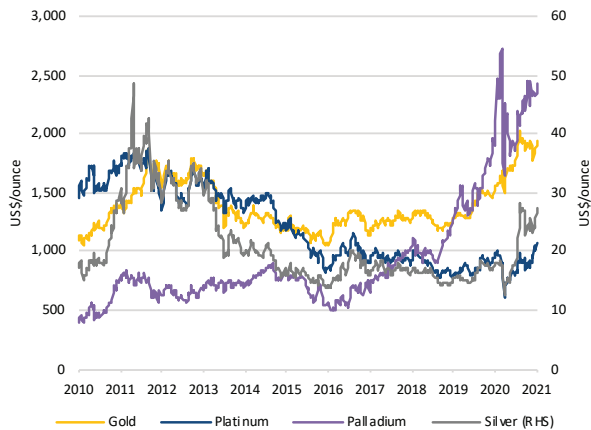
Loose fiscal and monetary policy also creates future inflation risks. It is worth remembering here that this argument was instrumental in fuelling the gold price rally that followed the 2008 global financial crisis, only to be proven wrong later. In spite of this precedent, many investors feel that given the far more extensive stimulus provided during the Covid-19 crisis, the likelihood of inflationary pressures is much higher. As such, even though Metals Focus' house view is that high inflation seems unlikely, we believe that the fear of it will continue to benefit gold over the next 12 months or so. Last but not least, we believe that the dollar will likely remain weak for some time, adding further price support. We therefore see gold once again breaking the \$2,000 mark in the next few months and reaching new all-time highs later in the year.

## Gold and Real US Treasury Yields



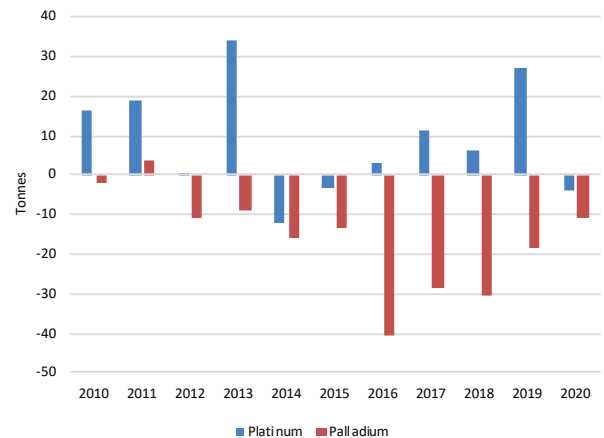
Source: Bloomberg

## Precious Metals Prices\*



Source: Bloomberg

## Platinum & Palladium Supply-Demand Balance



Source: Metals Focus

### SILVER

Over the first few months of the crisis, silver underperformed compared to gold. It was only during the summer, when gold's rally gathered enough momentum to partially catch up. Investors became comfortable that the precious metals bull market was here to stay and thus moved into this more volatile metal. Stronger base metals prices and optimism towards silver's use in green technologies also played a part in this.

Although the crisis did weigh on silver demand, it was less pronounced than for gold. This reflects silver's lower reliance on price elastic and discretionary demand segments, being a largely industrial metal and with some offset from rising bar and coin demand in the West. Moreover, as Covid-related disruptions affected mine production, silver's overall supply surplus in 2020 was little changed from the previous year. Having said this, looking at Asia in particular, the declines seen in Indian demand were material and often resulted in oversupplied market conditions during the year.

Looking ahead, we have little doubt that the drivers of gold demand will also boost silver's appeal to investors. In addition, owing to its typically more volatile nature, we would expect silver to outperform gold overall in 2021, peaking in the high \$30s before year-end. This is expected to drive the gold-silver ratio lower, from current levels around the 70 mark to the mid to low 60s. As far as the metal's fundamentals are concerned, although an effectively full recovery for industrial demand and further growth in physical investment are expected, they will be largely offset by a rebound in mine supply, leaving the market with a significant physical surplus.

### PLATINUM AND PALLADIUM

In addition to the indirect impact of macro factors discussed earlier, platinum and palladium prices were impacted by dramatic swings in the two metals' fundamentals in 2020. Both suffered heavy losses during the March economic meltdown and subsequently experienced

sharp rebounds as news of supply disruptions emerged. From then on, platinum moved broadly in line with gold, until its recent decoupling when platinum avoided the investor liquidations that hit gold. Palladium meanwhile drifted modestly upwards, helped by improving demand conditions.

In addition to the Covid-19 crisis, platinum and palladium supply were impacted by disruptions to Amplats' processing capacity. Coupled with Covid-related interruptions to South African mining operations, these resulted in double-digit declines across both metals' mine production last year.

Demand was also hit by the pandemic. Platinum and palladium autocatalyst fabrication suffered double-digit losses due to the crisis' impact on incomes and consumer confidence. For platinum, diesel's market share losses, especially in Europe, added extra pressure. Higher PGM loadings in the automotive sector, due to tightening emissions standards, particularly in Asia, provided an offset.

Platinum jewellery demand fell by 13% in 2020, a far smaller decline than the one gold suffered. This partly reflected market share gains within China at the expense of the yellow metal. Except glass, all industrial demand segments for platinum suffered declines. Investment in contrast more than doubled, fuelled by lower prices. Demand for palladium from non-autocatalyst applications was also weaker.

As a result of these forces, the platinum market moved into a deficit last year – its first since 2015. Palladium was also in deficit for the ninth consecutive year.

Looking ahead, while we forecast a recovery for mine production this year, we do not expect supply to return to 2019 levels for either metal. Moreover, South African production continues to face challenges, including risk of further disruptions to processing capacity and uncertainties over energy supply. As a result, there are downside risks to this forecast. Autocatalyst demand, meanwhile, is expected to reach a three-year high for platinum and a new all-time peak for palladium, as the impact of recovering vehicle sales is amplified by ongoing increases in PGM loadings. With a few exceptions, most other areas of platinum and palladium demand are expected to increase. Overall, we expect the platinum market to be almost balanced, while palladium will see its deficit grow.

Turning to prices, while we are generally constructive towards platinum for 2021 overall, we believe that a correction is likely in the near term. With Amplats' Anglo Converter Plant partly operational, the recent market tightness should dissipate, and this is likely to weigh on the price. Later this year, however, tailwinds from a stronger gold price, supply concerns and stronger evidence of improving demand conditions should help platinum rally. Our bullish outlook for palladium is based on more traditional fundamental considerations. Limited above-ground inventories, coupled with a growing deficit, should see the physical market tighten, taking the metal's price to new all-time highs.



**NIKOS KAVALIS** is a founding partner of Metals Focus. He has over 17 years of experience in precious metals, having previously worked for the Royal Bank of Scotland and GFMS. Since September 2019, Nikos has been based in Singapore, where he also runs the local subsidiary of Metals Focus.



# IMPROVING GOLD'S PHYSICAL AND DIGITAL TRACEABILITY

BY ABHINAV RAMESH, *Founder, Chainflux*

Regulators worldwide have long searched for ways to curb unlawful activities involving gold. The previous metal can be traded anonymously, and transactions are difficult to trace and verify. This is a growing concern as bullion is also increasingly being used by mutual funds, ETFs, e-gold players that offer gold-backed securities. Without a robust traceability system, gold can easily be smuggled or used for activities such as financing terrorism.

Traceability involves maintaining data on source, authenticity of the bullion bar till it is melted to make jewellery. However, there are currently few end-to-end traceability solutions for gold bullion, except for internal systems being adopted by refiners and exchanges. There are standards that are to be followed such as the Bank for International Settlements (BIS) standard in India for refined gold, Organisation for Economic Co-operation and Development (OECD) compliance that is required for proper sourcing, and of course the entire list of standards set out by the London Bullion Market Association (LBMA).

Using blockchain technology, a tamper-proof and auditable ledger can be created which would provide complete traceability of gold across the value chain. Companies in several countries have also experimented with using a blockchain system for traceability, including Tradewinds in Canada, Axedras in Switzerland, Truegold in Australia, and in India, where the India Gold Policy Centre and National Stock Exchange is working with Chainflux on a traceability solution. The ideal traceability solution would be to combine the physical bullion with the digital blockchain solution in a non-tamperable manner. This can be done through injecting a specialised material into the molten gold during the refining process, like what is being done at Perth Mint with Security Matters as part of the TrueGold initiative. This, however, has yet to be tested as the solution is slated to launch in the first quarter of 2021. It remains to be seen how the gold will be affected when it is converted to an alloy for producing jewellery.

**THE IDEAL TRACEABILITY SOLUTION WOULD BE TO COMBINE THE PHYSICAL BULLION WITH THE DIGITAL BLOCKCHAIN SOLUTION IN A NON-TAMPERABLE MANNER**

The other method, which has been tested further in the market with other commodities, is to attach an NFC tag or an RFID chip to the finished bullion. This tag or chip can be attached to the packaging of the bullion bar in such a manner that if the packaging is damaged, the link to the blockchain platform is broken, and anyone that scans the tag gets an error. This will determine if the bar has been tampered with. The blockchain serves as a data layer and ensures that once data is entered, it cannot be modified or tampered. The RFID and NFC tag can also be augmented using a system that is able to detect, through consumer-grade LiDAR AI technology, as to whether the bars produced by refiners identically matches the bars that are present with any entity to be able to verify fake bars. This again is still experimental technology and has not yet been proven in the market.

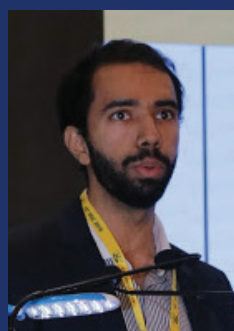
Blockchain can serve as a real time data feed to both monetary and securities regulators, on the movement of finished bullion bars. Regulators would be "nodes" in the blockchain network, and would be able to see a real-time view of authentic, OECD-compliant bullion

bars within the country. This traceability system helps to identify unmarked/smuggled/fake bars that are present with any registered entity. It would make it more difficult to bring smuggled/fake bars into the system, though it would not altogether eliminate it. A traceability system would also require all government bodies and regulators involved in the gold market to adopt a single platform to view and add data regarding bar movement. The software and the hardware aspects also have to be standardised for this system to be implemented on a country-wide scale.

The potential benefits of this traceability system for key stakeholders include:

- **Jewellers:** Show end customers the source of the product that they are buying and offer a high level of assurance around the weight and purity/fineness of jewellery. Millennial customers are increasingly on the lookout for sustainably produced and fair trade commodities, which can be assured through full traceability of precious stones and the precious metals used for jewellery creation.
- **Refiners:** Ease of bar authenticity and source compliance.
- **Banks:** Provide banks a strong case for bullion banking as well as provide credit to the gold trade.
- **Regulators:** Ensure accountability for every bullion bar, coin, biscuit, and gold jewellery by providing a real time view of all gold trades.
- **Logistics providers:** As long as logistics providers ensure all bullion moving in and out of the vaults are part of the blockchain traceability system, full traceability and security can be maintained.

Traceability for bullion benefits all participants in the gold supply chain. However, for the traceability solution to be fully functioning and effective, key participants need to be part of the blockchain platform. With the increasing digitalisation of gold, the requirement for traceability becomes all the more important moving forward.



**ABHINAV RAMESH** is the founder of Chainflux, a blockchain products firm that is working with India's National Stock Exchange and the India Gold Policy Centre to bring about end-to-end traceability for gold. He was formerly a management consultant at EY, and a fellow at India's Council of Scientific and Industrial Research (CSIR).



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