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# Vietnam's Gold Market



**Vietnam, a country of 93 million, is one of Asia's fastest growing economies. In the past few decades, a shift to a mixed economy and a construction boom has contributed to rapid economic growth, though the Vietnamese government still holds a tight rein over major state sectors, including the gold market.**

By SBMA

## Background

Gold has played a historically important role in Vietnamese life and the country's economy. In the 20th century, Vietnam experienced war, high inflation, economic instability and currency devaluation. As a result, Vietnamese gold still has the status of a physical currency to a certain extent, and it the preferred investment asset class among the population.

Before 1975, gold was used as a medium of exchange and a unit of measurement. In the 1960s, a Honda Cub motorbike was priced to 3 taels of gold, and the monthly salary of senior government official was pegged to 2 taels of gold (1 tael = 37.5 grams).

Kim Thanh was a famous refiner and bullion dealer in Southeast Asia before and during the Vietnam War (1 Nov 1955 to 30 April 1975). Its gold bars (1 tael, with 99.99% purity) were used as a means of exchange and a store of value. After the Vietnam War, Kim Thanh gold bars, or Swiss bars, were portable assets for the Vietnamese boat people and other refugees.

The period after the Vietnam War was a time of hyperinflation, and double-digit inflation was common from 1975 to the early 1990s, reaching its peak in 1986 (875%). In the late 1980s to the early 1990s, real estate, motorcycles, televisions, livestock and even agricultural products were priced and traded in gold. However, as inflation eased in the early 2000s, gold's exchange and price measurement functions gradually decreased, alongside the use and exchange of the Kim Thanh gold bar.

Currently, SJC gold bars dominate the market in Vietnam. According to Vietnam Gold Consultants Vice Chairman Mr Huynh Trung Khanh, SJC has produced 20 million gold bars to date.<sup>1</sup>

## Development of the gold market since 1986

The development of the Vietnamese economy began with the introduction of *Doi Moi*, or "Renovation", in December 1986. The set of economic reforms aimed at transforming Vietnam's centrally planned economy into a market-driven one with a socialist orientation.

The early 1990s witnessed the first wave of foreign direct investment (FDI) into Vietnam, which pushed its GDP to 8-9% by the mid-1990s. In 1997, the currency crisis hit Asia hard, particularly Thailand and Indonesia. Vietnam suffered less than its neighbours as the country's financial market was not open to foreign countries. The damage in Vietnam was limited to a 4% fall in GDP in 1999.

In the 2000s, FDI flowed back into Vietnam. This pushed GDP growth above 8% in 2005, a level that was maintained for three years, while FDI grew by 8.5%, exceeding US\$20 billion in 2007. Economic growth created a new-found appetite for investment among the Vietnamese. Gold, real estate and stocks became popular asset classes for investments.

In relation to the regulation of gold, the government abolished all administrative licensing for the management of gold trading activities in 1999, and the following year, the State Bank of Vietnam, the country's central bank, allowed credit institutions to mobilise gold in term deposits along with Vietnamese dong deposits guaranteed by gold. Besides that, the import of gold was permitted in 2001.



In 2005, the Finance Ministry reduced the import tax on gold bars from 1% to 0.5%, and the following year, the Central Bank approved margin trading on domestic and foreign gold.

In 2007, the Asian Commercial Bank opened leveraged gold trading facilities, and many banks followed suit in opening similar trading facilities. However, while this increased gold imports, it also increased the country's trade deficit.

In June 2008, the government decided to stop the import of gold. However, this created a surge in gold prices and resulted in more parallel imports. In November 2009, the government resumed gold imports, which resulted in a sharp drop in reserves.

### The gold market today

After years of active and free trading, particularly from 2008 to 2010, the central bank decided to take actions to cool the gold market. It issued control measures, which included the closure of more than 20 gold trading floors.

The market has been stable since the Vietnamese government issued a decree in 2012 to enable the central bank to directly intervene in the gold market, effectively making the State Bank of Vietnam the sole controller of gold trading in the country. The new rules meant that only companies with a minimum capital of 100 billion Vietnamese dong, annual tax payments of 500 million dong,

and branches in a minimum of three provinces would be allowed to trade gold and import gold bars. However, this put many small gold traders out of business. The number of gold traders fell from over 10,000 to around 2,500.

Some credit institutions and jewellery manufacturers had to close as a result of the new rules, which stated that a credit institution must have a charter capital of at least 3 trillion dong, be registered for gold bar trading, and be based in at least five provinces and municipalities. In order to qualify as a gold jewellery manufacturer, the company must be lawfully established, possess a business registration certificate to make gold jewellery, and have the necessary production facilities and equipment.



According to information found at the State Bank of Vietnam website, the gold market is still tightly controlled, and there is not much freedom to import and export gold.<sup>1</sup> The Vietnamese government is solely authorised to produce gold bullion, and it is also the only entity authorised to import and export raw gold for bullion production. Companies can import raw materials used in gold jewellery production, but this requires a license from the central bank, which is also required for trading gold bullion in Vietnam.

The following list of prohibited acts was published in Vietnam Law & Legal Forum magazine on 27 April 2012:

Prohibited acts in gold trading under Decree No. 24/2012/ND-CP of April 3, 2012

1. Producing gold jewellery and art craft without a certificate of business legibility granted by the State Bank;
2. Trading in gold bars; or importing or exporting gold material without a State Bank license;
3. Individuals bringing gold upon entry or exit in excess of prescribed limit without a State Bank license;
4. Using gold as a means of payment;
5. Producing gold bars in contravention of this Decree;
6. Engaged in other gold trading activities without the Prime Minister's permission and a State Bank license;
7. Violating this Decree and other related laws.

The decree created problems for local gold jewellery manufacturers as they could no longer import gold. The central bank later permitted a few firms to import gold materials under their strict supervision, but as yet no gold import quota has been granted.

Despite the strict rules governing the gold trade, there is no shortage of imported gold bars in the market as there is a "healthy underground market" for gold from Cambodia, Laos and China, with a higher premium of US\$40/troy oz. Additionally, while the gold retail distribution network has changed superficially on the surface, the core business remains strong – 10,000 gold shops operate in the country, selling gold chi rings over the counter and gold tael bars under the counter.

## Summary

On the surface, the gold market in Vietnam is highly regulated, with the State Bank of Vietnam controlling nearly all aspects of gold trading and manufacturing. However, the market is still strong, with a physical demand of 85 tonnes of gold per year, and a potential Gold Mobilisation Plan of 500 tonnes minimum in the pipeline. Additionally, the future Vietnam Gold Exchange has a large trading potential, seeing that daily margin trading volume already reached 2 million ounces in 2008.<sup>2</sup>

## Notes

1. Current regulation on gold can be found at the State Bank of Vietnam website ([www.sbv.gov.vn/webcenter/portal/en.home](http://www.sbv.gov.vn/webcenter/portal/en.home))
2. [http://asiapacificpmc.com/presentation/10\\_khanh.pdf](http://asiapacificpmc.com/presentation/10_khanh.pdf)

### Sample SJC bars



### Sample SBC bar



### Sample Kim Thanh gold bars



Note: the bar comes as a set containing three bars – two 15 gram bars (top) and one 7.5 gram bar (left).

### Economic data (2015)

Population: 92 million  
 GDP Growth: 6.7%  
 GDP/P: US\$2,036  
 CPI: 0.6%  
 Exports: US\$162 billion  
 Imports: US\$166 billion  
 Foreign Reserves: US\$34 billion  
 Foreign Debt: US\$39 billion

Source: FocusEconomics

### Units of gold trading in Vietnam

10 chi = 37.5 grams = 1 tael  
 5 chi = 18.8 grams  
 2 chi = 7.5 grams  
 1 chi = 3.8 grams  
 ½ chi = 1.9 grams

# What is Hallmarking and Why is it Important?

**Apart from Japan, Singapore is the only Asian country to have established a voluntary hallmarking system and an official national standard for precious metal fineness. Singapore Assay Office (SAO), an independent body that tests and certifies the purity of gold, silver, platinum and palladium, explains the importance of hallmarking and the process behind it.**

By Ng Siew Hua  
Chief Assayer, Singapore Assay Office

## Background

Hallmarks are a form of consumer protection and guarantee of the purity of precious metals. They include symbols identifying the assay office, purity of metal, and often marks representing the date and manufacturer. Assay offices randomly test batches of goods from manufacturers and if these samples are as described, mark them with a special hallmark.

SAO's role is to ensure a consistent and systematic hallmarking practice in Singapore. With over 40 years of experience, SAO is an established accredited assaying and hallmarking office, reinforcing consumer protection among shoppers, gold retailers, suppliers and traders. SAO's hallmarking is a voluntary scheme where manufacturers, traders, and retailers of gold jewellery submit their jewellery pieces for assaying and hallmarking. The scheme facilitates two procedures: testing and hallmarking.

## Testing

To ascertain the homogeneity of a batch of articles, sampled samples will undergo fire assaying, and SAO will screen the batch of jewellery using the X-ray fluorescence (XRF) material analysis method (Image 1). XRF is a non-destructive material analytical method to determine the homogeneity of a batch of articles. In this process, a sample is irradiated with X-rays from a controlled X-ray tube. The X-ray emission penetrates only the surface of the sample to determine the elemental composition of the metal.



Image 1: Items undergoing X-ray fluorescence (XRF) material analysis

Samples from the batch are then analysed by fire assaying, a destructive method. The sample is weighed, and placed in a high-temperature furnace for oxidation to remove base metals, a process known as cupellation. The molten globe consisting of gold/silver is then treated with nitric acid after cooling to separate silver from gold. The gold sample is then weighed to determine its purity.



Image 2: Fire assaying process

Items that meet purity standards will undergo the hallmarking procedures. Items that do not meet standards would then be investigated to determine if it is sub-standard. Fire assaying is an internationally accepted test method to determine the precious metal content present.

## The Hallmarking Process

If the samples in a batch being tested meet industry standards, SAO will hallmark every piece of the jewellery in the batch with a SAO mark that bears the symbol of a lion's head to attest to its quality. The complete set of hallmarks consists of the SAO mark, the standard mark and the jeweller's mark (Image 3).



Image 3: A set of SAO hallmarks on a piece of jewellery



Image 4: Manual hallmarking



Image 5: Laser hallmarking

Handmarking, whereby articles are hand-struck with a metal punch and a hammer (Image 4), is the most traditional form of hallmarking. Today, laser marking is widespread, and is done using fine, high-powered laser beams (Image 5). This method can also be used to mark signatures and logos.

## Maintaining High Standards

To maintain SAO's high standards and to align them with international assay offices, SAO regularly attends the conference organised by the International Hallmarking Convention, and actively participates in the annual proficiency test programme organised by the International Association of Assay Offices (IAAO). SAO also works with organisations such as Consumer Association of Singapore (CASE) and Singapore Standard Council (SSC) to protect the interests of consumers of precious metal articles.

For more information, please visit [www.assayoffice.com.sg](http://www.assayoffice.com.sg).

## Hallmarking Symbols



The complete set of SAO hallmarks consists of the SAO mark, the standard mark and the jeweller's mark.

The SAO mark, a quality control mark placed on precious metals article, is a lion's head.

The Standard Mark represents the purity of the element. For example: 999, 916, 22K, 750, 585, etc.

The jeweller's mark – also a responsible mark – can be a simple logo or wording to represent the company or producer.

**Ng Siew Hua** is the Singapore Assay Office's Chief Assayer, a role she has held since SAO's establishment in 1979. She has 45 years of experience in assaying and hallmarking of precious metals articles and currently leads SAO's team of assayers. Over the years, she has received training in hallmarking, gold sampling, gold marking, fire assaying, and registrations from Johnson Matthey Chemicals Ltd, Birmingham Assay Office, and London Assay Office.

# Bullion's Appeal to Singapore's Mass Market



By Ernest Kwek  
Executive Director, SK Bullion

I received my first 1-kilogram silver bar on my 12th birthday. Back then, I did not understand the true value of the gift, seeing it as a cheap metal used for industrial purposes. However, its price grew tenfold, from US\$160 in 2000, to US\$1,600 in 2011, which led me to see its potential as an investment. I started trading precious metals at the peak of the subprime mortgage crisis, which has helped me see its value as a safe haven asset, a portfolio diversifier and a hedge against inflation. However, not many people have had the opportunity to access the precious metal market as easily as I did.

Many decades ago, buying and selling bullion in Singapore only took place at commercial banks and private goldsmiths. It was slow – transactions were manual and access to market information was mainly through telephone and email. Since then, accessibility to bullion investment has expanded tremendously, and the market has grown with International Enterprise (IE) Singapore and SBMA working together to make Singapore a precious metal trading hub. Their efforts in bringing precious metal industry players together, lifting GST on investment precious metals, and the establishment of the Singapore Freeport has helped to grow Singapore's bullion market.

On the back of growing market demand, I began supplying bullion to corporate investors in 2012. Four years later, the business entered into a joint venture with Soo Kee Group, a public listed company in Singapore and jeweller with over 25 years in the market, to launch SK Bullion. The company offers customers a holistic investment platform for them to buy, sell and store precious metals at their convenience. Leveraging on Soo Kee Group's strong brand and reputation and wide

customer base, this was a strategic move to reach the mass market in Southeast Asia and to offer an alternative bullion investment platform.

In today's consumer market, buyers include seasoned bullion investors, professionals who are new to bullion, and retirees who are cash-rich. To meet the growing interest and demand for bullion investment, SK Bullion has had to develop a full suite of products and services to cater to the mass market and all their investment precious metals needs. While investors have access to bullion at our physical retail store in the city centre, they can also buy, sell and store precious metals at their convenience through a holistic online platform. To make online purchases more convenient, SK Bullion also offers worldwide delivery and taps on the retail network of Soo Kee Group to offer free self-collection at the company's 25 outlets in Singapore.

To make bullion investment more affordable and convenient for the mass market, including beginner investors as well as retirees, there are bullion savings programs available, which allow consumers to accumulate precious metals over time, without having a large initial outlay. Just like a regular savings plan, consumers can choose to make ad-hoc or regular precious metals purchases, and take delivery only when their savings has reached a convertible quantity.

I believe that a safe haven asset is not just about what you buy but it is also about where you keep it, so we offer such services for our customers. Seasoned investors who trade in large volumes with us do not have to worry about the storage of their assets. SK Bullion provides hassle-free and

fully insured precious metal storage options such as safe deposit boxes and vaults, which have easy deposit and withdrawal processes.

With the rise of political and economic uncertainty, there are more and more people who are showing keen interest in investing in gold and silver. However, many lack the knowledge of where to buy and sell and how to get started, but we hope to contribute to bridging the knowledge gap to make it easier for new investors to enter the precious metal market. The availability of one-stop bullion products and services as well as investment education is making bullion investment more accessible to the public, and brings us one step closer to the goal of making Singapore Asia's precious metal trading hub.



**Ernest Kwek** is the founder and Executive Director of SK Bullion. A subsidiary of Soo Kee Group, SK Bullion is a trusted investment precious metal dealer in Asia, offering a holistic investment platform for consumers to buy, sell and store precious metals at their convenience. Ernest has over 15 years' experience in the industry and plays an instrumental role in the company's growth and development, and is actively involved in its strategy planning, sales and operations

# Meeting the Needs of Gold Investors Today



**Tokyo Commodity Exchange, Inc. (TOCOM) opened its gold market in 1982 and is the benchmark price for the region, while its platinum market, founded in 1984, serves a similar role. Ryoichi Seki looks at the recent launch of its rolling spot futures contract, and explains how the exchange is innovating to stay relevant in the current market.**

By Ryoichi Seki

*General Manager, Global Business Development, Tokyo Commodity Exchange (TOCOM)*

Precious metals are the most active contracts on the Tokyo Commodity Exchange (TOCOM), Japan's largest commodity futures exchange, representing 62% of exchange volume in the first half of 2017. Gold is the most active, comprising 43% of exchange volume. The Gold Standard (1 kg) contract is TOCOM's flagship, comprising 26% of exchange volume in the first half of 2017, with an average daily volume of 24,348 lots – equivalent to 24 tonnes.

Japanese retail investors and major trading houses active both in Japan and overseas gold markets have contributed to the liquidity of the contracts offered. Japanese gold refineries also participate in the market as members. In addition, many international traders engage in arbitrage between TOCOM and other markets, including New York and London. Currently 55% of Gold Standard contract trading originates outside Japan.

While many new gold markets have opened in Asia in recent years, the TOCOM gold contract remains popular with investors from all over the world, and the exchange continues to innovate, which attracts participants from all over the world.

## Expanding precious metals on offer

TOCOM has four physically delivered futures products – gold, silver, platinum and palladium – but it has been expanding the boundaries of the precious metals it offers (Figure 1).

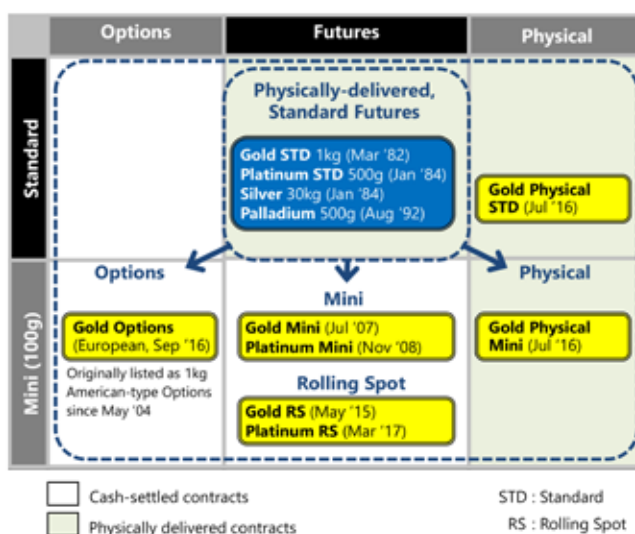


Figure 1: Precious metals products offered by TOCOM

To meet the demand for risk management and investment tools, gold options were introduced in 2004. The 1 kg, American-type contracts were revamped in September 2016 as 100 g, European-type contracts. To meet the needs of retail investors, TOCOM added mini and rolling spot contracts for gold and platinum. On top of these derivatives contracts, it began trading physical gold in 100 g and 1 kg quantities in July 2016. TOCOM's gold market has evolved to include futures, options and physical trading, with a wide variety of hedging and trading opportunities.

### Rolling spot futures

Rolling Spot ("RS") contracts were first introduced in May 2015 for gold and for platinum in March 2017. Unlike traditional futures, the RS contract has just one series that expires each business day. Open positions are automatically rolled to the next trading day. This feature allows participants to hold positions indefinitely, which facilitates long-term trading strategies.

Initially, Gold RS was well received by Japanese retail investors who needed a platform to execute such strategies. The participation of overseas investors made RS a successful contract for the exchange. It is now the second largest in open interest, and third in volume. Platinum RS is also experiencing similar success, with its open interest ranked fifth, just four-months after its launch (Figure 2).

The success of RS contracts is due the fact that they do not undermine existing contracts, but instead give investors additional liquidity. It also demonstrates that RS contracts address the market demand for new investment tools.



Figure 2: Participation in TOCOM rolling spot contracts

### Expanding physical delivery mechanisms

In July 2017, TOCOM added Brink's Japan as a designated warehouse, the first of its kind without a Japanese parent company. The addition of Brink's increases flexibility, especially for international market participants.

At the same time, TOCOM introduced rule changes for physical delivery. In principle, deliveries require a warehouse receipt. TOCOM now allows using alternative delivery arrangements when both counterparts agree to the delivery terms. As such, participants can now choose book entry transfer, or can deliver bullion approved by other industry organisations, such as LBMA Good Delivery bars.

This mechanism requires an agreement between the seller and buyer on the terms and conditions of delivery. Those looking for a counterpart can use TOCOM Window, an online matching platform accessible by TOCOM members. TOCOM broker members assist non-members with access to TOCOM Window (Figure 3).

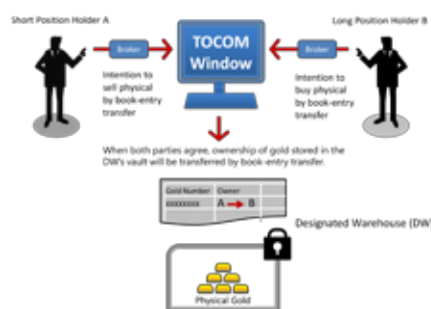


Figure 3: Physical delivery through book-entry transfer

### Looking ahead

With current global developments focused on central clearing obligations on OTC products and the introduction of benchmarking regulations, the trend has been to develop and introduce new exchange-traded products that offer solutions

to cope with regulatory changes facing the precious metals industry.

While TOCOM has a long history, it continues to innovate, and is introducing a new gold index and is working together with an ETF provider to list ETF/ETN contracts based on the index, targeting its products at pension funds. The exchange is also searching for ways to integrate fintech in its operations, as it hopes to continue to support the global trading community for years to come.



**Ryoichi Seki** is the General Manager of Global Business Development at the Tokyo Commodity Exchange (TOCOM). With over 20 years of experience at the exchange, Mr.

Seki entered his current role as head of international activities in 2011. Mr Seki has led several teams in negotiating regulatory approvals around the world. He has also worked on numerous IT and systems-related projects and brought the to successful outcomes.

### TOCOM Adopts Delivery by Physicals for Precious Metals Market

The Tokyo Commodity Exchange, Inc. (TOCOM) announced precious metals market rule changes for Declared Delivery and Customized Delivery. The new rules allow settlement through the delivery of bars instead of warehouse receipts if there is consent between buyer and seller. The updated rules took effect on 1 August 2017.

TOCOM had stipulated, as a general rule, that precious metals market futures must be settled by delivery of warehouse receipt from a TOCOM-approved warehouse for bullion that manufacturers refine and hold in their storage themselves. This rule controls and maintains the quality of deliverable goods in an open marketplace where anonymous participants can trade and conveniently distribute bullion. Recently, an increasing number of market participants, particularly those from abroad, requested that the Exchange permit settlement by the delivery of precious metal bars.

The adjustment defines the requirements for counterparties who wish to deliver through mutual consent. The updated rules substantially ease restrictions imposed on commercial participants and the financial institutions, which do not have warehouse receipt issuance qualifications, when they wish to deliver bullion on the TOCOM market. For example, a local precious metals processor may use gold bars purchased from an international vendor for delivery without having to have a warehouse receipt issued. Other participants may use bars purchased from an overseas financial institution for delivery by transferring ownership at a warehouse.

In conjunction with these rule changes, TOCOM has accepted Brink's Japan Limited, a subsidiary of Brink's Incorporated, as an approved warehouse operator, which will increase delivery options.

For more information, please visit:

<http://www.tocom.or.jp/news/2017/20170802.html>  
<http://www.brinks.com/en/public/brinks/tocom>

# Demystifying London's Gold & Silver Vault Holdings



Photo: Bank of England

By Neil Harby  
Chief Technical Officer, LBMA

The LBMA vault holding data outlined in Figure 1 represent the volume of Loco London gold and silver held in the London vaults offering custodian services. As at 31 March 2017 there were 7,449 tonnes of gold, valued at US\$298 billion and 32,078 tonnes of silver valued at US\$19 billion. This equates to approximately 596,000 gold bars and 1,069,255 silver bars.

There are currently seven custodians offering vaulting services (all of which are LBMA members):

- Four security carriers: Brinks, G4S Cash Solutions (UK), Malca-Amit and Loomis International (UK) Ltd; and
- Three clearing banks: HSBC, ICBC Standard Bank and JP Morgan.

In addition the Bank of England (not an LBMA member) also offers gold (but not silver) custodial services to central banks and certain commercial firms that facilitate central bank access to the liquidity of the London gold market. Those clearing banks without their own vault operations

– Scotiabank and UBS – utilise their accounts with one of the LBMA custodians or the Bank of England (BoE) and therefore do not contribute to these statistics to avoid double accounting.

The physical holdings of precious metals held in the London vaults underpin the gross daily trading and net clearing in London. The net clearing is undertaken by the members of the London Precious Metals Clearing Limited (LPMCL). London is the largest gold trading centre in the world as demonstrated by the US\$18.1 billion worth of gold which was cleared on average each day in March 2017 (Source: LBMA net daily clearing statistics).

## Transparency

According to the Fair and Effective Markets Review<sup>1</sup>,

*"...in markets where OTC trading remains the preferred model, authorities and market participants should continue to explore the scope for improving transparency, in ways that also enhance effectiveness."*

Publication of aggregate physical holdings is the first step in reporting for the London Precious Metals Market. The next step is trade reporting. The collection of trade data will add transparency to the market and provide gross turnover for the loco London market. Previously, gross turnover had been calculated from one-off surveys or estimated from the clearing statistics.

## The Bank of England

The BoE started publishing its monthly gold holding figures in January 2017<sup>2</sup>. It stores allocated gold on behalf of its customers (custodian service) which include the UK Government, other central banks and commercial banks. BoE data are included in the LBMA statistics shown below.



Months	Gold	
	Fine troy ounces (thousands)	tonnes
July 2016	234,144	7,283
August 2016	239,742	7,457
September 2016	244,025	7,590
October 2016	246,141	7,656
November 2016	246,055	7,653
December 2016	241,881	7,523
January 2017	238,887	7,430
February 2017	238,776	7,427
March 2017	239,488	7,449



Months	Silver	
	Fine troy ounces (thousands)	tonnes
July 2016	951,433	29,593
August 2016	957,798	29,791
September 2016	969,175	30,145
October 2016	978,229	30,426
November 2016	993,303	30,895
December 2016	1,004,313	31,238
January 2017	1,010,942	31,444
February 2017	1,010,268	31,423
March 2017	1,031,321	32,078

Figure 1: LBMA vault holding data

### Explanatory notes:

- The data is reported monthly (three months in arrears).
- The data represents the holdings on the last day of the month.
- The LBMA dataset starts from July 2016, which coincides with the current set of custodians being established.
- Loco simply relates to the place or location at which a commodity is physically held, e.g. Loco London gold. Precious metals held within the environs of the M25 are considered to be Loco London.
- All physical forms of metal are included: large wholesale bars, coin, kilo bars and small bars. The data only includes physical metal held within the London environs and does not include precious metals physical holdings readily available at short notice in other secure overseas vaulting facilities.
- Jewellery and other private holdings held by retailers, individuals and smaller vaults not included in the London Clearing system are not included in the numbers.
- Conversion factor: 1 gram = 0.0321507465 troy ounces.

This article appeared in the August 2017 (edition 86) issue of LBMA's newsletter *The Alchemist*



**Neil Harby** is the LBMA's Chief Technical Officer. He acts as the Executive's main contact for the Good Delivery system and as such is responsible for managing the LBMA Good Delivery accreditation system, applications, Pro-Active Monitoring, Proficiency Testing and other GD related projects. The role also involves overseeing the work of the GDL Officer in the administration of the Good Delivery system as well as managing the implementation by gold Good Delivery refiners of the LBMA's Responsible Gold Guidance and ensuring the efficiency and effectiveness of the Good Delivery work carried out by the LBMA. Prior to joining the LBMA Neil spent most of his career at the Rand Refinery in South Africa where he was Head of Evaluation. He also represented the Rand Refinery as one of the five LBMA Referees, whose primary responsibility is oversee the maintenance of the LBMA's Good Delivery List.

### Notes

1. For further details see <http://www.bankofengland.co.uk/markets/Pages/fmreview.aspx>
2. See <http://www.bankofengland.co.uk/what/Pages/gold.aspx> for these data.

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# Modernising Gold & Silver Markets with LMEprecious

**LMEprecious is a new initiative created by the London Metal Exchange (LME), the World Gold Council and a group of leading industry players to introduce exchange-traded, loco London precious metals products. LME Gold and LME Silver futures provide new opportunities for trading, price discovery and risk management, creating an enhanced market structure for the precious metals community, explains William Fyfe.**

By William Fyfe

Head of Singapore, London Metal Exchange

The London bullion market is the world's oldest and most established gold trading and risk management centre, and has remained largely unchanged for centuries. However, the London market has been facing unprecedented change over the past decade, with regulation coming into force that fundamentally changes the behaviour of market participants and the economics of their businesses.

LME is the principal global exchange for metals trading and price discovery. LME used to provide the London gold and silver forward curves to the market based on information provided by major market participants to aid pricing in the market. As the regulatory landscape evolved and as other markets became embroiled in scandals, provision of pricing on this basis became untenable, seeing the end of provision of such curves to the market.

As the approach to benchmarks and reference prices changed under new regulation, LME was awarded the administration of the LBMA London Platinum and Palladium Prices ("LPP"), which it has successfully administered since 1 December 2014 on a customised auction platform, LMEbullion. As a Recognised Investment Exchange (RIE), LME is regulated by the UK Financial Conduct Authority (FCA) and has been at the heart of the evolution of regulation of derivatives markets and metals markets. Since the financial crisis, the direction of global financial regulation has been to encourage a migration of bilaterally traded products towards centrally cleared and exchange traded venues.

The London bullion market has been slow to adapt, with business still largely conducted bilaterally. Recent years have seen the closure of numerous prominent precious metals desks in London, impacting traded volumes, bid/ask spreads and liquidity. As new regulations come into force, pressure on the bilateral model and associated costs of capital are increasing. LME recognises that OTC trading will be uneconomic for many and the justification for committing capital against bilateral credit lines will become harder.

The G20 has committed to promote central clearing by providing economic incentives to clear via a central counterparty clearing house (CCP) in order to reduce systemic risk in financial markets and to support fair and transparent markets.

To this end, LME has been working with a group of leading industry participants that are committed to providing a London based centre of liquidity to reinvigorate the market, remove barriers to trading based on counterparty credit lines and establish transparency in a forward curve that stretches out

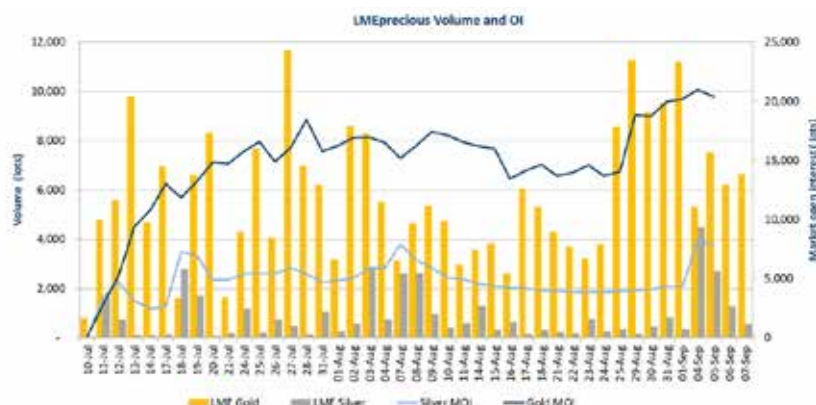


Figure 1: LMEprecious trading volume

to five years. Goldman Sachs, ICBC Standard Bank, Morgan Stanley, Natixis and Societe Generale and OSTC have invested in LMEprecious, providing exchange traded and cleared futures contracts in loco London gold and silver. They have provided significant market expertise during the development of the contracts and have been providing liquidity since its launch.

Offering daily and monthly futures for both gold and silver, LMEprecious gives market participants greater choice, updating the gold and silver markets to better reflect the needs of global market players. We believe that LME's existing structure and experience in the base metals markets gives us a strong basis for building out the precious metals trading environment.

LME's market structure and pricing are designed to ensure that it supports the OTC market. In particular, LME's inter-office trade structure allows trades to be negotiated on an OTC basis, but then brought-on to LME under the rules of the Exchange. Unlike other exchanges, LME does not discriminate against such activities by imposing either a block trade threshold (i.e. trade sizes as small as one lot can be brought-on as a telephone trade), or by charging a larger fee for execution away from the central limit order book – indeed these trades benefit from a fee discount.

Since launching on 10 July 2017, volumes have been growing rapidly with open interest building along the curve. A total of 212,000 lots of gold (661 tonnes) and 28,500 lots of silver (4,431 tonnes) were traded up until the end of August. The combined weekly average daily volume (ADV) increased from 5,600 lots in week 1, to over 10,000 lots in week 8. Open interest has also had an impressive start with over 22,129 lots of gold and 3,642 lots of silver

as of 6 September. This includes positions out to 3 years forward, which is highly encouraging. On screen liquidity has been building with the spot order books for gold and silver typically US\$0.20 and US\$0.01 wide respectively, with significant volume either side.

From day one there has been liquid carry pricing in depth out to 5 years, this has provided a transparent real-time forward curve. Feedback from a range of precious market participants across the value chain has been very positive; this includes producers, refiners, banks and financial institutions. We have also seen healthy growth in on-screen carry liquidity, with sizable orders up to 2,000 lots per clip visible. This strong start demonstrates the appetite from the industry to trade on exchange and centrally clear, and is also an indication of the commitment from the industry to the LMEprecious initiative.



**William Fyfe** is Head of LME's Singapore office. The Singapore team cover the Asia Pacific region excluding Greater China, engaging with users of the LME Base, Precious and Ferrous metal contracts.

Prior to joining LME, William worked for the commodity and futures broking arms of Societe Generale, HSBC and Jefferies in Hong Kong, Singapore and Taiwan.

# Asia Pacific Precious Metals Conference 2017

The inaugural Asia Pacific Precious Metals Conference, held on 4-6 June 2017, was attended by over 330 delegates from 170+ companies spread over 24 countries. The conference showcased the diversity and potential of the region's precious metals sector, and witnessed the signing of Memoranda of Understandings (MOUs) between Myanmar Gold Development Public Company, and between The Chinese Gold & Silver Exchange Society and SBMA to foster closer collaboration. SBMA and IE Singapore along with its host of sponsors and partners would like to thank the speakers, delegates, and exhibitors for their wholehearted support.

Reports on the conference proceedings can be found at [www.sbma.org.sg](http://www.sbma.org.sg).

Mark your calendars for the 2nd APPMC, which will be held on 3-5 June 2018 in Singapore.



## Photos:

1. From left, Sunil Kashyap (Chairman, SBMA), Albert Cheng (CEO, SBMA) and U Khin Maung Han (Chairman, Myanmar Gold Development Public Company) at the MOU signing between Myanmar Gold Development Public Company and SBMA.
2. SBMA CEO Albert Cheng and SBMA Chairman Sunil Kashyap presenting a memento to CGSE President Haywood Cheung after the MOU signing between CGSE and SBMA.
3. APPMC delegates at the conference.
4. Guest of Honour, IE Singapore Assistant CEO Satvinder Singh delivering the Welcome Address. World Gold Council
5. Robin Martin from the World Gold Council speaking on the "Fintech Development in Gold" panel.
6. Precious Metals Insights Managing Director Philip Klapwijk speaking about "Globalisation and the Gold Market".
7. Shanghai Gold Exchange Product Director Andrew Wang, who introduced the Shanghai Gold Benchmark.
8. SBMA CEO Albert Cheng (left) thanking TD Securities Director and Global Head of Commodity Strategy Bart Melek (right) for speaking at the conference.

## Comments from participants

We were all proud for the SBMA fraternity. We know there is still much to do to entrench our leadership globally as the gold precious metals hub, but we feel we are in good company with all of you in making it happen – **Satvinder Singh** (Assistant CEO, IE Singapore)

The keynote speakers were all interesting and relevant to the current market and the networking amongst the attendees was very beneficial – **Janie Simpson** (Managing Director, ABC Bullion)

The WGC is very pleased we could make a positive contribution towards helping make this event an important fixture for the region. The conference panels and the many conversations I had over the course of four days in Singapore have given me a lot to think about – **Robin Martin** (Managing Director, Market Infrastructure, World Gold Council)

Thank you, the conference was a great success and we at the WPIC were very pleased with the reception that platinum received and the impact we were able to have for a first event – **Marcus Grubb** (Director of Market Development, World Platinum Investment Council)

SBMA and the conference organisers should be congratulated for putting on such a great conference and getting so many delegates from across the world to attend – **Philip Klapwijk** (Managing Director, Precious Metals Insights)

The first APPMC is a great success for sure. I've never seen so many Southeast Asian bullion industry representatives at any conference – **Andrew Wang** (Product Director, Shanghai Gold Exchange)

I appreciate SBMA inviting the ASX to a really well organised and successful first APPMC. I really enjoyed meeting all the key people in the industry and look forward to your other events and conferences – **Waqar Chaudry** (Product Manager, ASX Limited)

The conference has allowed us to explore new partnership opportunities with other gold market participants, and we have received cooperation proposals, which will have a powerful impact on the development of our business in Singapore and Southeast Asia – **Sergei Vozchikov** (Managing Director, Copernicus Gold)

Congratulations on a well-organised and successful conference! I very much enjoyed the event and I found there were very many high quality people in attendance, helping TD and me to make inroads to new business relationships – **Bart Melek** (Director, Global Head of Commodity Strategy, TD Securities)

Thank you again for your excellent organisation of the inaugural SBMA conference – **Kerry Stevenson** (Managing Director, Symposium)

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# SBMA News

By Albert Cheng  
CEO, SBMA

Though the inaugural Asia Pacific Precious Metal Conference (APPMC) – SBMA's biggest event of the year – is over, we've been busy following up with stakeholders both within and outside the Asean region as part of the organisation's efforts to open up regional markets, as well as to progress our agenda. Here is an update of our activities.

## June 4 - 6:

SBMA organises its inaugural Asia Pacific Precious Metal Conference with International Enterprise (IE) Singapore. The conference aims at developing and strengthening a unified body in Southeast Asia for the bullion market. See Page 14 for a summary of the event.

## June 22 - 25:

SBMA CEO Albert Cheng represents the organisation at the Hong Kong Jewellery & Gem Fair.

## June 26:

Following the MOU signed at APPMC, SBMA holds discussions with The Chinese Gold & Silver Exchange Society (CGSE) on how it could assist the Myanmar Federation of Mining Associations (MFMA) and CGSE's collaboration on the development of Myanmar's gold market.

## July 10:

Launch of LMEprecious, an initiative by the London Metal Exchange (LME), the World Gold Council and a group of leading industry players to introduce exchange-traded, loco London precious metals products.

## July 12:

LME joins SBMA as Foreign Associate Member. Read more at [bit.ly/2ugBtxm](http://bit.ly/2ugBtxm).

## July 19:

CEO Albert Cheng attends the launch of LMEprecious.



LMEprecious Launch Party in London

## July 24:

Executive Director Hawk Namiki and Chair of Finance Committee KL Yap attends the Local Enterprise Association Development (LEAD) forum, a key annual platform for trade associations and chambers (TACs) to network, share experiences as well as explore potential partnerships.

## August 11 - 13:

Executive Director Hawk Namiki represents the organisation at the 14th India International Gold Convention in Goa. The three-day event is a platform for the Indian bullion industry to discuss its challenges, articulate possible solutions and set an agenda for its development.



Participants at the 14th India International Gold Convention held in Goa

## August 28:

SBMA holds Management Committee meeting.

## September 12:

LME holds inaugural Singapore Gala, welcoming 27 market from the past two years participants based in Asia, and to reflect the importance of the region for metals trading. The gala will provide a forum for discussion on the state of the precious metals market and the Asia-Pacific region, including economic analysis and debate.

## September 26:

SBMA holds seminar – The Role of Gold as an Asset Class for the Private Wealth Industry.

## Exploratory Meetings

- ANZ (20 June)
- World Gold Council (3 July)
- Copernicus Gold & London Metals Exchange (5 July)
- C. Steinweg (7 July)
- Crédit Agricole (18 August)
- HSBC (18 August)

## Membership

Onboarding of the London Metal Exchange.

SBMA's current membership consists of 37 companies, including three Category 1 members, six Foreign Associate Corporate members and 28 Local Associate Corporate members.

## Upcoming Partner Events

15-17 October 2017. Barcelona, Spain.

### LBMA/LPPM Precious Metals Conference 2017

Senior representatives from all sectors of the precious metals markets will meet in Barcelona, Spain, for the premier event in the industry, now in its 18th year. Please visit [www.lbma.org.uk](http://www.lbma.org.uk) for registration and event details.

26 – 27 October 2017. Washington, DC, USA.  
**Silver Industrial Conference 2017**

The theme of this year's conference is "Silver's Evolving Role in Science and Technology".

30 – 31 October 2017. London, UK.

### LME Week/LME Annual Dinner 2017

More information on the event at <https://www.lme.com/news-and-events/events/metals-seminar>.

7 – 8 November 2017. Zurich, Switzerland.

### 2017 Precious Metals Summit Zurich

More information on the event at <http://www.precioussummit.com/event/2017-summit-zurich>.

9 – 10 November 2017. Hyatt Regency. The Churchill, London.

### 2017 Precious Metals Summit London

More information on the event at <http://www.precioussummit.com/event/2017-summit-zurich>.

9 – 10 November 2017. Melbourne, Australia.

### Precious Metal Investment Symposium

SBMA is proud to be the industry partner of Symposium. Registration and details at <http://symposium.net.au>.

## About Crucible

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