

## **Gold Market Expected to Continue Recovery in 2017 Despite Weakening Jewellery Demand**

SBMA Bullion Market Outlook 2017 Seminar event summary  
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Looking back at the gold market in 2016, the bear cycle that started in late 2011 and took shape in 2013, seems to be coming to an end as institutional investors are becoming more interested in the market again, said Nikos Kavalis, founding partner of Metals Focus, as he shared insights from the independent precious metals consultancy's Gold Focus 2017 pre-launch research publication at SBMA's seminar.

Behind the change of attitude was the changing macroeconomic backdrop, the most important factor being the change in expectations regarding US monetary policy, which has continued to be the main driver of gold prices in the past few years, Mr Kavalis said. Responding to a question by SBMA Chairman Sunil Kashyap about which markets are expected to be most active in 2017, Mr Kavalis said that in terms of physical investment, Europe will be decent, US will be okay, and some Southeast Asian markets and China should do well. However, in terms of jewellery, China and India is not expected to do as well, but there will be some recovery in the Middle East and Southeast Asia, mostly due to economics rather than price factors. Mr Kavalis said he expects the price of gold to go above \$1,300.

Scotiabank currency strategist Gao Qi spoke about the impact of the election of US President Donald Trump on US-China bilateral trade. He said that China's trade surplus with the US, which is 47% of US total trade deficit in 2016, is likely to decline, but this will provide the impetus for China to push forward the China-backed Regional Comprehensive Economic Partnership (RCEP), which includes the 10 members of ASEAN. He remained positive about US-China relations, saying that he expects productive outcomes and good results from the upcoming Trump-Xi summit in April, the G20 summit in July, and the US-China Strategic and Economic Dialogue due mid-2017.

Phillip Futures' bullion and forex business manager Dickson Woon explained the differences between ETFs and new gold and silver direct investment (GDI and SDI) products offered by the company. He said the latter has no hidden costs, low gearing, low tracking error, is a low-cost investment, and allows investors to trade around-the-clock. The product also allows investors to hedge against short-term downward movement. The brokerage house has introduced these products to cater to conservative investors and those who want to trade but do not want to carry physical gold and the threat of overnight margin call, he said.

The audience was given a brief update of recent regulatory developments, as changes have been made or are expected in laws regarding buy-back arrangements involving precious metals, lending-based crowdfunding, and the move towards the Common Reporting Standard (CRS) in the movement towards global tax transparency. RHTLaw Taylor Wessing partner Ow Kim Kit touched on the possible impact that CRS would

have on the bullion market. She said that as commodities such as gold are likely to be considered physical goods, they may not fall under the definition of “Financial Asset” under CRS, though she cautioned this could change in the future.

## **Key takeaways of the day**

### *Relatively steady economic situation in China*

- Mr Gao said that while a strong dollar is not in President Trump’s interest, there is also no basis for a continuous depreciation of the yuan, adding that he expects only a “modest depreciation of 2-3%” in 2017.
- The Chinese economy is expected to grow around 6.5% this year, consistent with China’s official target.
- Expect modest drop in China’s reserves. The People’s Bank of China is expected to tighten controls on cross-border outflows, while further opening up domestic capital markets to attract capital inflows, Mr Gao said.

### *Weak jewellery demand, but Asia’s importance to the gold market continues to grow*

- Responding to a question by SBMA CEO Albert Cheng, Mr Kavalis said that gold is going to new markets via new routes, so refineries outside Switzerland are building up their capacity. However, as long the domination of the loco London market continues, the proximity of Swiss refineries to London and the infrastructure there will make it hard to other hubs, such as Dubai, to emerge as a replacement, Mr Kavalis said.
- Gold recycling reversed its trend to reach a 4-year high in 2016, but even in Asia, there were winners and losers: China (+37%) had the biggest total increase, while it grew 172% in Indonesia, driven by prices that reached all-time high, and a tax amnesty. In Thailand, it grew by 91%, driven by high prices and an upcoming payments system, but Japan saw a 28% decline, which Mr Kavalis explained was due to the strong yen, giving refiners less incentive to scrap existing material.
- Mr Kavalis said demand for jewellery in 2016 was a lot worse than the year before because of a slowdown in Indian and Chinese demand, brought about by a slowdown in the economy and real incomes not rising, as well as changing consumer preferences. He called this a “seminal moment for the gold market last year”. Mr Kavalis said the fact that overall demand increased was “a testament to the strength of Western physical investment”.

### *Macro backdrop for gold*

- In general, inventory is shifting from Western institutional investors to markets including India and Southeast Asia, and from London vaults to the hands, pockets of Asian investors.
- Mr Kavalis said he is moderately bullish for 2017 because most of the factors that helped gold in 2016 are unlikely to go anywhere. Negative interest rates (both nominal and in real terms) continue to be a problem for many countries.
- The US economy is unlikely to accelerate rapidly with the policies proposed the new presidential administration, and there are serious risks of an equity market correction. Chances are the market will disappoint if there is no acceleration in US economic growth. The dissolution of the EU is a long-tail risk and cannot be

ignored, and despite a positive result from the Dutch election, there is still the French presidential election in May.

- Mr Kavalis said that the US Federal Reserve Bank is expected to raise interest rates in July and December, and there should be temporary price corrections before the rate hikes.
- Supply is expected to decline, and the physical market is weak/poor. Demand is expected to increase, but most important factor, jewellery demand, is weak, which limits the upside for gold buyers.

#### *Regulatory developments*

- The Monetary Authority of Singapore (MAS) will soon regulate buy-back arrangements for precious metals as they are in effect debt-financing arrangements. MAS is proposing to use existing legislation under the SFA and FAA for such arrangements, which includes disclosure requirements and licensing of intermediaries.
- Operators of P2P lending platforms will have to hold a CMS license.
- In line with a global move towards Automatic Exchange of Information (AEOI), Singapore will implement AEOI according to the internationally agreed common reporting standard by September 2018. Its prerequisites are: a level playing field, reciprocity (bilateral approach with jurisdictions Singapore has signed competent authority agreements CAAs with), and exchange with countries that have a strong rule of law.