Crucible

By Singapore Bullion Market Association
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Celebrating 25 years SBMA 1994-2019

Issue 9 | March 2019

The Palace of Culture and Science and the central business district of Warsaw, Poland.

IN THIS ISSUE

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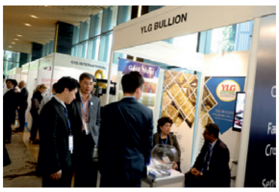

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Gordon Cheung: Singapore Can Be a Focal Point in the Precious Metals Supply Chain

In an interview with *The Assay* magazine, SBMA's deputy chief executive talks about how the association is working to raise Singapore's status as a gold trading hub, and what he thinks about the bullion market in the long term.

By *The Assay* magazine

Could you talk about the Singapore Bullion Market Association – its background and history, and what you do there?

The Singapore Bullion Market Association (SBMA) was in operation in 1994 as a non-profit association with 16 founding members. In the early 90s, Singapore lacked the necessary expertise for the bullion market. For ten years since year 2000, the SBMA remained dormant until the government decided to enhance the ecosystem to boost trading activities and volume, and aimed to make Singapore one of the major gold hubs in Asia.

To accomplish this goal, government agency, SBMA and the precious metals community engaged the GST committee from IRAS in discussion to the exclusion of GST on investment graded precious metals. In 2012, Singapore finally lifted GST on Investment Precious Metals (IPMs). After the removal of the GST, the World Gold Council reported that gold transactions rose 94% within a year.

The government also provides incentives to attract foreign refiners and international market players to establish their operations in Singapore. One major incentive is the Approved Refinery and Consolidator Scheme (ARCS) that exempts precious metal refiners from the GST on the importation of materials that are processed into IPM.

SBMA, with the support of Enterprise Singapore and its members, is commissioned to raise the status of Singapore as a gold trading hub. Albert Cheng, previously Managing Director, Far East, World Gold Council, was appointed to head the SBMA in 2015 to carry out the commission. Since then, SBMA has grown to 48 members, mostly based in Singapore. Our members include banks, refineries, logistics companies, and international PM trading houses.

SBMA organised the inaugural Asia Pacific Precious Metals Conference (APPMC) in 2017, which was attended by over 330 delegates coming from 23 countries. We also successfully concluded the second APPMC in June 2018 where we welcomed 358 delegates representing 173 companies from 29 countries. The third APPMC will be held on 9–11 June 2019.

How is the gold market performing in Asia, and what role do you see Singapore playing in Asia's trading of gold?

SBMA aims to have Singapore representing the entire ASEAN precious metals market and aspires to become the go-to hub for the region. This includes sourcing, trading, hedging, clearing and storing of bullion in Singapore.

We hope that Singapore can act as a focal point for the entire precious metals supply chain. That includes suppliers of recycled gold* and LBMA-accredited large bars, traders, refineries, consumers, as well as end-users. The amount of recycled gold reached 304 tonnes in 2017 in East Asia, according to Metals Focus (Table 1).

Table 1: Recycled gold (tonnes)

Recycled gold (by tonnes)

	2012	2013	2014	2015	2016	2017	YoY
China	140.0	98.0	117.6	107.0	146.3	142.6	-2%
Thailand	28.0	27.0	27.5	21.0	40.2	31.0	-23%
Indonesia	30.0	25.0	22.5	15.9	43.2	24.0	-44%
Japan	48.6	35.0	38.7	31.4	22.6	22.1	-2%
Others	103.7	76.7	71.4	65.0	104.8	85.0	19%
Subtotal	350.3	261.7	277.7	240.2	357.0	304.7	-15%

**Recycled gold = Scrap + Disinvestment + Individual residual*

Is improved access to banking and smartphone-enabled digital financial services seen as a threat to gold's traditional role as a major store of wealth across Asia?

An emerging trend is the use of AI in bullion trading. AI is helping to upgrade services to increase trading efficiency and minimise operational risks. However, gold is still irreplaceable as is the need for a place to store it. With ongoing changes in socio-economic factors, changes in attitudes and a larger middle-class population in Asia, there is still a need for wealth to be stored safely.

In this regard, Singapore is a great place to store wealth, with reputable international logistics service providers like G4S, Loomis and Brinks, which are trusted for their ability to transport and store bullion, and the state-of-the-art Le Freeport situated in Changi Airport, which is regarded as Singapore's Fort Knox for the storage of collectables and precious metals.

Another new digital innovation is the use of blockchain and the emergence of fintech platforms where consumers can purchase gold bars using online functions or purchase the digital value of the gold. Users can expect to benefit from digital financial services where they can purchase gold online and use China, Hong Kong, or Singapore as a delivery point.

As a leading precious metals hub in the region, what are Singapore's competitive advantages?

In addition to the points referenced above, factors that contribute to Singapore's strength as a leading precious metals hub include:

- No GST on investment-grade precious metals
- World-class financial infrastructure
- Role as a financial and wealth management hub
- Politically stable with strong rule of law
- Strong governmental support to the industry
- SBMA support for market participants
- AAA credit rating with stable outlook

The proximity and centrality of the ASEAN market complement the above-mentioned points. This includes a well-developed supply chain. Also, Southeast Asia still has scrap gold floating through its markets. Increasingly, locals will want to use a trusted site to recycle that gold and send it to refineries to upgrade to Kilo bars. In Southeast Asia, this makes a big difference, as previously you might have had to go to Northeast Asia, Europe, or North America to do this.

What are some of the risks in the long term that will impact bullion markets globally?

I spoke earlier about the AI applications in finance and the role of fintech. While they bring benefits to the industry, there are also risks associated with them. A concern with fintech is that their platforms may have more risk and liability of defaults or bankruptcies. For instance, if gold is purchased digitally and is connected to an at-risk fintech platform, the gold asset could be at risk if there is a default.

Does SBMA see any risks during the ongoing trade disputes between the US and its trading partners?

There are two risks that SBMA is seeing regarding the trade disputes: with the US putting sanctions on Turkey, whose economy has been struggling this year, there's now further pressure on Turkey to deal with a slowing economy and sanctions. This has had an impact on Turkish currency, as you've probably seen with the lira. Turkey is a major gold hub for the Middle East, as a location for buyers and sellers in the region. It also functions as a gateway that connects Europe and the Middle East. If the lira continues to lose value, people will lose trust in the currency and then start putting their money into safe havens like gold. This will have inflationary impacts and will impact the connection that Turkey has to the Middle East and the rest of the Islamic world.

The other major concern is the US and China trade conflict. Inflationary pressures are already being caused by the increasing restrictions on trade between both countries. The US dollar is currently keeping its value, but eventually, these trade wars will drive up global inflation. In these countries, people will lose confidence in their currencies and the demand to store wealth in gold will increase. This will be especially acute in China since the yuan is already depreciating, which will make it difficult for people in China to invest abroad. As a result, they will likely be encouraged to invest in gold to protect their wealth.

This interview was previously published in The Assay (www.theassay.com)

Shaping Customer Habits in Emerging Markets

By Jacek Baranowski
International Sales Manager, Metal Market Asia

The liberalisation of trade regulations concerning investment precious metals in Southeast Asia and the emergence of new markets have created a unique opportunity for trading companies to shape the preferences, buying habits and product awareness of the region's growing customer base. One of the easily overlooked and sometimes neglected roles of investment precious metals dealers and manufacturers is educating existing and potential buyers, which is important for the future of the market. In the region's relatively new markets, this role is even more significant and pronounced since it has a straightforward, direct and immediate impact on the growing but still narrow audience.

One of the easily overlooked and sometimes neglected roles of investment precious metals dealers and manufacturers is educating existing and potential buyers.

The experience of precious metals dealers in Eastern European may shed some light on the scope of this opportunity and the profoundness of its potential impact. In contrast to Western European market, countries such as Poland, Czech Republic, Slovakia, Hungary, Romania, Lithuania, Latvia and Estonia did not have a significant investment precious metals trade activity until fairly recently. The fall of the Iron Curtain and the end of Cold War in 1991 opened up their economies to the global market and facilitated wealth acquisition and the establishment of an upper-middle class.

The ensuing change in mentality spanned over twenty years and allowed people to rebuild their long-gone investments and develop a savings-oriented mindset. This mindset, which seemed almost unimaginable during the times when daily food products or amenities were highly sought-after and strictly rationed, became more widespread once the countries entered free market and their citizens, with their basic needs covered, found themselves suddenly capable of accumulating a financial surplus.

Poland's investment precious metals market emerged around ten years ago, catalysed by the global financial crisis of 2008. It was during this tumultuous time that Polish people started to question their faith in the banking system. The growing feeling of uncertainty over their long-accumulated savings led them to seek alternative, safer means of protecting their assets. Physical gold, with its long-standing reputation of being a wealth preservation tool, was an obvious choice, yet the means of gold acquisition were still rather limited, with jewellery purchases seeming like the only option available.

Reaching out to those customers looking to buy physical gold and raising awareness of the existence of precious metals in the form of investment bullion coins and bars was the very first step for the trading companies that emerged during this period. But this was only the beginning, as there was still a tremendous need for information sharing and education. In the beginning, many inexperienced buyers were oblivious to the fact that prices of precious metals changed so dynamically and frequently, and that the very same product could cost less or more only a few hours after purchase. As such, one of the major obstacles was to alleviate the feeling of being cheated among the customers who had bought a coin or bar and shortly after noticed it available for less, while at the same time protecting the business from those who speculated at the expense of the dealer.

These early stages in the development of the precious metals market allowed companies to promote certain buying patterns among their customers.

These early stages in the development of the precious metals market allowed companies to promote certain buying patterns among their customers, shape their preferences for certain brands and products, and finally to accustom them to certain practices. Encouraging people to make monthly purchases of bullion – thus averaging yearly metal prices – created a loyal base of returning customers who protected the dealers during stagnant, low-yielding months. Early exposure to Swiss and Australian manufactured gold bars made it almost impossible for other brands to enter the Polish market – the preference still being prevalent. Local dealers offering tighter spreads on gold coins and recommending coins more contributed to creating another preference among buyers. In another Eastern European country, trading companies tried to distinguish themselves from the competition by strongly promoting American Eagle coins, marketing them as more prestigious and reputable than other coins. Their success can be measured by the surprising amount of these coins sold, despite being unpopular elsewhere in the European Union.

A desperate need to validate the legitimacy of the business and to build trust among customers led some companies to peculiar and dubious practises of using word "Mint" in the company name (despite not minting any products at all) and to issuing paper "certificates of origin" for their regular bullion products that did not originally come with such documents – accustoming buyers to worthless print-outs and forcing other dealers to time and again explain the pointlessness of such documents. The proximity of the massive and highly competitive German market and the efforts of leading Polish companies to offer very tight premiums, timely and free delivery, broad product portfolio and high quality of service, created extremely demanding and price-oriented customers.

Local trends and preferences, which are often more fluid early on in emerging markets, tend to solidify into long-lasting buying habits.

Local trends and preferences, which are often more fluid early on in emerging markets, tend to solidify into long-lasting buying habits. This has been observed in Eastern European markets, where customers have grown in their knowledge and experience over the last ten years and now have certain expectations with regards to investment precious metals purchasing process. The role of early players in emerging markets is not to be dismissed nor underestimated, as they are the ones that mould the preferences of customers and set local industry standards. Missing this opportunity is not something that neither the companies involved nor the markets themselves can afford. For businesses, it's a matter of succeeding or not; for the markets, it's whether they prosper and grow or falter, stagnate and die.

Jacek Baranowski is the Head of International Trading at Metal Market Asia, a Singapore-based bullion trading company, and at Metal Market Europe, a major retail and wholesale precious metals dealer located in Poland and operating in the Eastern European market.

Changes Coming to Russia's Gold Market

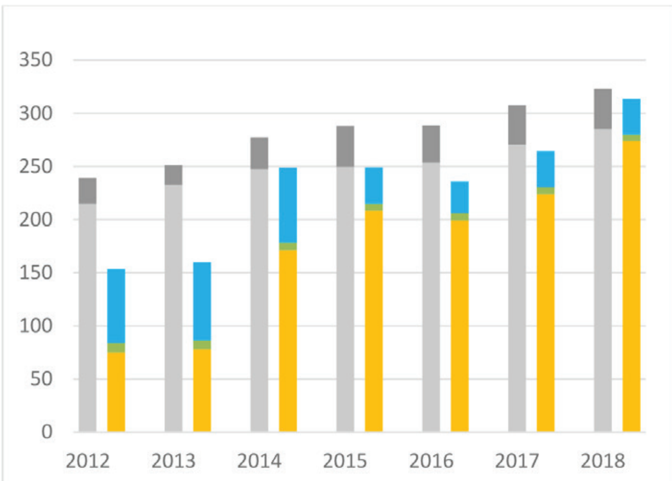
By Nikita Knyazev
Director, Precious Metals Market, Moscow Exchange

This year is highly likely to be a year of changes for the investment gold market in Russia: the Ministry of Finance will assess the feasibility of VAT exemption on investment gold, the State Duma will consider a bill to allow citizens to purchase precious metals in individual investment accounts, and the Central Bank will make changes to its pricing policy when conducting its market operations.

Moscow Exchange sees potential in attracting the demand of non-residents through the International Clearing Members mechanism and has launched three new Asian POPs (point of presence) - Singapore, Hong Kong and Shanghai.

Before discussing the impact of these changes on the Russian market, let's take a closer look at the structure of supply and demand in the context of recent years (see Figure 1). The main suppliers of gold are gold mining companies. Gold production in Russia in 2018 reached almost 314 tonnes, excluding exported gold concentrates.[1] This figure has been steadily growing from 3% to 5% per annum. Fitch also forecasts an additional 4% growth in gold mining for 2019. The largest demand for gold comes from the Central Bank of Russia. At the end of 2018, purchases of gold by the Central Bank amounted to approximately 274 tonnes. Due to the demand from internal purchases and the importance of gold for monetary reserves, Russia reduced the export of refined gold by 3.3 times to 17.05 tonnes in 2018, down from 56.61 tonnes in 2017.[2]

According to the World Gold Council, the demand for precious metals from individuals in Russia in 2018 was near 2.8 tonnes per year, whereas in China it reached 304.2 tonnes, 162 tonnes in India, and 96 tonnes in Germany. The main reason for such low figures is the current tax regime on physical precious metals. As an instrument of savings, gold is promising, but individuals buying the metal from a bank must pay VAT at a rate of 20%, which is not refunded to the individual investor when he/she sells it. This makes investing in gold unattractive.



Graph 1. Gold Supply and Demand in tonnes in Russia

The VAT exemption on investment gold in Russia is a promising change that may occur. If this happens, it would lead to a significant change in the structure of the precious metals market, growth in demand for this class of assets among individuals, and a significant increase in market liquidity. Gold as a financial instrument is protected from inflation and can be a good alternative to foreign currency deposits. As such, the initiative fits into the general course of de-dollarisation of the Russian economy. The total volume of foreign currency deposits of Russians for 2018 decreased by 6.3% – from $94

billion to $88 billion – due to a 21% fall in long-term foreign currency deposits (from $58.3 billion to $46 billion).[3] In the case of VAT cancellation for investment gold, we can assume that about 3-5% of all deposits can be transferred to savings in gold, or approximately $2.6 billion to $4.4 billion.

The government also pays considerable attention to the repatriation of capital. It turned out that a number of citizens are open to repatriating their capital, but want to invest it not in the banking system, but in gold bars. Russian Deputy Finance Minister Alexei Moiseyev said in an interview with Reuters that he had seen appeals from banks, which reported that many customers are ready to de-dollarise, but need a VAT-friendly mode of buying and selling bullion. Sanctions pressure on Russia, as well as the risks of blocking funds of legal entities and individuals, has created a unique situation for the development of the gold market in the country. Customers are interested in physical gold. They want to transfer a part of their funds, including FX, to gold and to have a liquid asset that is independent of sanctions. This became particularly urgent in 2018.

Russia, the third-largest gold producer in the world after China and Australia, has been discussing for many years the possibility of exempting VAT on precious metals. This year, discussions on this subject will reach the highest level – Prime Minister Dmitry Medvedev instructed the Ministry of Finance to submit proposals on the feasibility of abolishing VAT on precious metals when selling it to individuals. The deadline for execution of the order is April 1, 2019.

The other key change in the gold market is the possibility for citizens to purchase precious metals in individual investment accounts (IIS). Currently, only funds and securities can be considered in IIS. The relevant amendments are included in the bill sent to the State Duma for approval. As of January 31, 2019, 2 million private investors were registered in the stock market of the Moscow Stock Exchange. A significant proportion of them are IIS, designed to stimulate investment in the Russian market by providing tax incentives. As of January 31, 2019, there were 636,600 accounts. Data from an analytical review of the Bank of Russia for the brokerage industry for 2017 to 1Q 2018 suggests that the volume of assets in IIS totaled about 60 billion rubles (S$1.26 billion), about 16% of which is cash and deposits. If the bill is passed, individuals will be able to add gold to their portfolios.

It is likely that the Russian gold market will definitely see at least one significant change this year. The Russian Central Bank announced in a press release in February 2019 a change in its pricing policy in relation to market operations with gold. To align the price conditions for the sale of gold to the Bank of Russia with the terms of its sale for export and in other market segments, as well as the formation of prerequisites for the further development of the domestic precious metals market, the Bank of Russia will set a discount to the purchase price of refined gold currently determined daily based on the LBMA Gold Price AM. The discount will begin on May 1, 2019, and its value will gradually increase over the course of the year. Moscow Exchange (MOEX) believes that this change in the conditions for operations will ultimately lead to the diversification of participants in the gold market and will contribute to the development of the exchange market for precious metals

Exchange trading in precious metals (gold and silver) has taken place on MOEX since 2013. Trading in precious metals is implemented on the technical platform of the foreign exchange market using a unified system of margining and risk management. The National Clearing Center (NCC) acts as a central counterparty, clearing and settlement organisation. The metal is delivered to the metal accounts of the clearing participants opened at the NCC. Post-trading operations include operations with precious metal ingots in the NCC depository in Moscow, as well as the possibility of using precious metals held in the accounts of participants in correspondent banks in London and Zurich as collateral. At the end of 2018, the volume of trade in precious metals in spot and swap instruments amounted to 102.3 billion rubles. Market participants are forty-four banks, including the Central Bank of Russia, as well as twelve brokerage firms.

MOEX is also continuing to develop the liquidity of the exchange market for precious metals and sees potential in attracting the demand of non-residents through the International Clearing Members mechanism. Trading and Clearing members may be separate entities. Trading members have to be Russian residents, but Clearing members can be domestic or foreign. This will allow non-resident organisations to become qualified Clearing members and hold capital directly with NCC, and therefore take less credit risk. It also allows non-residents to have naked access to the Exchange's systems (through the use of SMA logins) and avoid latency penalties from brokers' infrastructure.

Moscow Exchange offers customers network connectivity from top financial centres across the globe including Europe, United States, and the Middle East through its global network services. In February 2019 MOEX has launched three new Asian POPs, which now include Singapore, Hong Kong, and Shanghai. Our resilient infrastructure offers globally competitive door-to-door latency and easy access to liquidity using industry standard trading protocols and market data feeds. To develop the investment gold market, we have also signed a memorandum of understanding in April 2019 with the Shanghai Gold Exchange to develop cooperation.

This is an interesting time for gold market in Russia with big changes ahead, and we invite all international precious metals players to use this opportunity and provide liquidity. Buying gold in rubles is a unique tool that combines all the advantages of buying gold for dollars and buying dollars for rubles.

Nikita Knyazev is a director at the Moscow Exchange, focusing on new projects and precious metals trading. He began his career in non-government pension fund Welfare in 2009, in the department of market risks. In 2010 he moved to investment company TKB Capital, where he was responsible for hedging operations in commodity markets and maintaining an options part of structural products as a derivatives trader. From 2015–2018 he was deputy CEO of Ekaterinburg Precious Metal Refinery.

[1] *Data from the Ministry of Finance of Russia.*

[2] *Data from PKU "Assay Chamber of Russia"*

[3] *Central Bank Report*

Gold Forecast 2019 from a Technical Perspective

By Gary Wagner
The Gold Forecast, Wagner Financial Group

Cross of projections

This analysis elaborates our short-term model to forecast the gold price for H1 2019 which, if intertwined with our two long-term models (not covered here) projecting from 2001 and 1975 respectively, will see their paths intersect in December 2015 at a pivotal point at which gold prices would enter another bullish phase.

Figure A has the recent rally highlighted in yellow. It begins in mid-August 2018, and highlights the current market action up until January 23. This rally began at $1,168, the lowest in 2018.

This model indicates that a bullish rally is in play. A failure in breaching the technical resistance at $1,300 would lead to a correction that once it has run its course, could see gold trade as high as $1,352.

In November 2018, gold prices began to stage a highly energised surge through the 50-day and 100-day moving averages. Last week same month, a golden cross occurred when the 50-day moving average surpassed the 100-day moving average, adding more fuel to the uptrend. In late December, the price closed above the 200-day moving average for the first time since May 2018.

Figure A

Figure B

Figure C

Figure D

Figure E

Figure F

Charts used in this article are made using data from the e-Signal platform by Interactive Data.

Closing above the 200-day moving average is a significant technical signal indicating a long-term bullish trend will come to formation. More so it will remain valid as long as the current price can hold above this average. Since January 2 gold has been consolidating and trading sideways.

Figure C shows that the gold price broke below the symmetrical triangle. The corrective move could send gold down to $1,267 before veering back to $1,340 or further to $1,247 with a rally to $1,320 by the same measurement.

As Figure D shows, on January 4 gold traded in an expanded range as it hit a high of $1,300 before a sell-off to as low as $1,278. The following week saw a series of dwindling lower-high and higher-low swings, which developed into a converging triangle pattern. Gold eventually broke below the support line on January 18.

Figure D also demonstrates a model based upon the resistance level at $1,300 and the start of a correction. If the correction concludes at the 0.38% retracement ($1,276), the next rally could take gold as high as $1,336–1,352. If the fourth wave ends at the 0.5% retracement ($1,246), gold is likely to rally to $1,312 –1,321.

Long-term cycle

Our research suggests that gold is in the final phase of a major long-term impulse cycle. This model also provides a look-back at the final major bullish wave could be traced back to end of 2015, following a correction to $1,040. This corrective fourth wave developed from the all-time high at $1,900 in 2011. The model suggest that gold could re-test the record highs that, if taken out, could see an extensive surge to between $1800 and $2200 per troy ounce.

The super-long bullish run from 2001 to 2020 has five major waves. The fifth wave started at $1,040, in December 2015. Red and blue lines in Figure E represent the two Fibonacci extensions.

There are two accepted techniques to forecast the fifth wave. The first technique is to use wave one and use the price gained to create the fifth wave. This will result in wave 1 and wave 5 being equal in length. The other technique is to use a Fibonacci extension of wave three. Since wave three cannot be the shortest of any impulse wave, theoretically the extension could be up to a 1 to 1. However, most Elliott wave technicians will use a .618%, or a .78% extension of wave three to forecast wave five.

Figure F contains a Fibonacci extension of wave three to forecast the final fifth wave on the right-hand side of the chart. This extension of wave three is charted at both the .618% and .78% extension of wave three. and a 1-for-1 extension of wave one on the right. The lowest projection is that gold will reach a high of $1,805, and the highest projection looks for gold to trade to $2,022 (.78% extension) by 2022.

Gary Wagner has been a technical market analyst for 35 years. He co-developed the first software application that identified candlestick patterns for market forecasting an is the co-author of *Trading Applications of Japanese Candlestick Charting*. He is the executive producer of TheGoldForecast.com, writes a daily column for Kitco News, and is a contributor to *Technical Analysis of Stocks & Commodities* magazine.

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Gold: Back in Favour

Gold is back: after five years in the doldrums, investors are snapping the precious metal up in large quantities. Here are the reasons for its revival, and why demand is expected to remain strong in Asia.

By Finews Asia

Central banks have added more gold to their reserves than at any time since the 1970s. Russia is the most active among the buyers, according to recent figures provided by the World Gold Council (WGC).

In 2018, central banks around the world added 651 tonnes of gold to their holdings, the biggest net increase since 1971, when the free convertibility of the U.S. dollar into gold was suspended by the Nixon administration. And data shows that last year's net increase is the second-highest ever.

The demand for gold by central banks increased 74 percent from a year earlier. With the price of gold at about $1,310 per ounce, the volume of the metal purchased by central banks corresponds to about $27 billion.

Even as demand for gold soared, the price didn't increase at the same pace. The reason is the level of supply. Mines around the world produced 3,347 tonnes of gold last year, a new record. The recycled volume also reached a record 1,173 tonnes.

Still, experts say that the price of gold may soon rise substantially as several factors combine to form the perfect storm. First, they say gold is becoming more attractive as the equity bull market is coming to an end, forcing investors to shop around for other assets.

Second, with volatility increasing, investors are looking for stability, which may also benefit the gold price. And third, the dollar is expected to get weaker this year – also benefiting the gold price. The US dollar and gold tend to move in opposite directions.

The fourth aspect is a lack of trust in the US under the guidance of President Donald Trump, which in turn may help depress the dollar further – thus pushing up the price of gold.

Fifth: a currency crisis and level of indebtedness in many countries will whet the appetite of investors for gold, given its functions as a long-term safe haven. With a potential slump of cryptocurrencies also potentially imminent, some investors may be looking for other, more traditional, vehicles.

Sixth: the world is undergoing substantial change, with many industries facing challenges from resurgent technological competitors, with the «old» West grappling with the «new», dynamic East and a society that is getting older, putting pressure on pension systems designed for a different era. The sense of unease tends to favor investments in gold, analysts say.

Seventh: a stock exchange crisis may precipitate an even stronger decline of indexed products. A rapid decline in index products may lead to an ever faster and deeper crash, studies have shown. It may be a little ironic that it is Russia that is leading a trend, having been crisis-ridden for so many years. The U.S. meanwhile is moving into a more isolated position and the dollar, which still is so important for the pricing of gold, is losing some of its importance.

Demand for Gold to Remain Strong in Asia

A weak global economic outlook, heightened geopolitical tensions and financial market instability are factors supporting gold demand, especially in Asia, where investors have long used the precious metal as a hedge against volatility.

"Gold jewellery and bar demand in Vietnam, Indonesia and Thailand showed high single-digit growth due to the weakening of regional currencies, the safe haven argument for gold in a volatile environment, and low unemployment rate. Going forward, these economies should continue to be resilient, and we should see strong single-digit gold demand growth in Southeast Asian countries in 2019," Singapore Bullion Market Association (SBMA) CEO Albert Cheng told finews.asia.

Cheng however, pointed out the risks posed by escalating trade tensions, highlighting that while gold investment has benefitted from financial market volatility, physical gold demand in Southeast Asia slowed down significantly in Q4 last year due to headwinds caused by a volatile equities market and trade disputes between China and the U.S.

Strong gold demand in Southeast Asia bodes well for Singapore, which has in recent years positioned itself as the region's gold hub, attracting precious metals participants with government initiatives to develop the country's investment precious metals (IPM) sector.

"Singapore's well-established infrastructure, advanced technology, mature legal system and triple-A sovereign credit rating make the city-state an ideal gold trading hub in Asia, and provide distinct connectivity for the industrialists in the region," SBMA Deputy Chief Executive Gordon Cheung said.

Investment banks with a presence in Singapore that are active in the gold market here include ICBC Standard Bank, the Bank of Nova Scotia, Standard Chartered, UBS and JP Morgan.

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A Need Creates a Golden Opportunity: Connecting Crypto to Gold

By Joshua Rotbart
Managing Partner, J. Rotbart & Co.

J. Rotbart & Co. recently celebrated its third anniversary. Although we are well known in the precious metals industry, few of our peers are aware of our sister company, JR-Crypto, which assists cryptocurrency investors by offering them a secure way to move funds from the volatile and virtual market of cryptos to the stable and safe world of physical gold. JR-Crypto offers a robust ecosystem that allows a two-way market from gold to crypto and vice versa, without compromising on strict anti-money-laundering (AML) and know-your-client (KYC) policies. In addition, JR-Crypto offers cold storage services in over ten locations globally.

In 2016, we encountered an unusual client request: "I trust you when it comes to helping me buy and store precious metals. Would you also be able to source for me a virtual coin named Bitcoin?" We looked into this "new" asset class and sourced 1BTC for our client through a Singapore-based peer-to-peer platform. After completing this transaction, we received similar requests with increasing volumes. In the crypto heyday of 2017, several of our bullion clients asked us to liquidate a part of their physical precious metals holdings and transfer them bitcoin in return. We recognised this opportunity and looked into the matter more seriously, which is how we established JR-Crypto.

> *There is an even greater need for crypto investors to have a way to easily and securely move from these volatile new assets to the stability and safety of physical gold.*

There are several similarities between cryptocurrencies (mostly bitcoin) and gold. Both can be viewed as global decentralised currencies, as they are traded globally and are not issued by any central bank. However, cryptocurrencies are a new uncharted asset with a low public acceptance rate, lack of regulatory framework, and extremely volatile prices. Traditional investors use gold as a "safe haven" but considering the unrealistic appreciation in the price of cryptos, it was clear to us that there is an even greater need for crypto investors to have a way to easily and securely move from these volatile new assets to the stability and safety of physical gold.

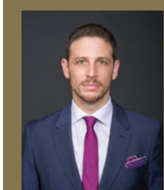
Although some of our industry peers already accept bitcoin as means of payment, the fact that we serve mostly high-net worth individuals and investment firms mean that the transaction values we deal with are usually higher, which entails additional legal and logistical issues. The challenges we have encountered include:

- **Finding the right crypto trading partners.** As the crypto industry matured, a few key players emerged, some of them backed by big financial firms. JR-Crypto only trades with the most innovative crypto OTC companies via advanced trading systems.
- **Compliance and KYC procedures.** Due to the anonymous nature of holding cryptocurrencies, this was our biggest concern. We assigned a Singapore-based law firm to design strict, up-to-date KYC and compliance SOPs to ensure clients are screened properly. We also use innovative tech solutions to conduct enhanced due diligence on the coins, trace their origin and make sure they are not derived from illicit or illegal activities.
- **Banking.** Opening a bank account was perhaps the most difficult task we encountered. Although cryptos have become more popular, many industries still refrain from embracing it, especially the banking sector. Many crypto enthusiasts claim that the banking industry is the one that will suffer the most from the mass adoption of digital coins, as this will eliminate the need for a third-party intermediary.

Due to the above, and the fact that cryptocurrencies are a new asset class that requires additional KYC and AML procedures, the majority of banks have completely banned new accounts for crypto-related companies, as well as receiving remittances that originated from any crypto-related activity. The few banks that are tolerant of crypto-related activities shunned us completely as we are also involved in precious metals trading. Eventually, we found a solution. JR-Crypto now enjoys solid banking relationships.

Challenges still exist, of course. The general ecosystem is fragile, and all the required components, such as banking and professional insurance coverage, are not accessible to everyone. That said, the success of JR-Crypto proves that solutions can be found.

JR-Crypto is now gearing up for the next challenge: contributing to the two technological leaps our industry requires. Both derive from blockchain technology. First, using blockchain to track gold from its origin to the end client. Second, digitising gold so that investors can buy, sell and even spend gold-backed tokens. We call on our friends in the industry to support one another in these efforts.



Joshua Rotbart is the Founder and Managing Partner of J. Rotbart & Co. , an international bullion house with offices in Hong Kong, Singapore and Manila which provides solutions for high-net worth individuals, family offices and private banks wishing to procure, transport and store physical precious metals and other tangible assets worldwide. Joshua began his career in the precious metals industry in 2010 when he joined the Malca-Amit logistics group. In 2016 Joshua established J. Rotbart & Co. In his career Joshua helped hundreds of clients handle about US$1 billion worth of goods.

How Do New AML/CFT Regulations Affect the Precious Metals Industry?

By SBMA

Singapore introduced the Precious Stones and Precious Metals (Prevention of Money Laundering and Terrorism Financing) Bill on 11 February 2019 to strengthen anti-money laundering and countering the financing of terrorism (AML/CFT) measures in the precious stones and precious metals dealers (PSMDs) sector.

At a session organised for SBMA members, Jason Chan, SBMA Honorary Legal Counsel, provided a short briefing on the changes introduced by the new legislation, while Ingenique Solutions, an AML/CFT customer screening solution provider for non-bank entities, discussed how to implement AML/CFT measures in practice while striking a balance between compliance requirements and business needs, as well as the importance of ongoing monitoring.

How the law affects the PSMD sector

In line with the broader AML/CFT framework, Singapore has introduced various measures to mitigate money laundering and terrorism financing (ML/TF) risks in the PSMD sector. However, PSMDs were previously not subject to AML/CFT supervision or requirements beyond the Cash Transaction Reporting regime introduced in 2014, which requires PSMDs to perform customer due diligence, keep records and file cash transaction reports for cash transactions exceeding S$20,000.

In 2018, the Ministry of Law said that stronger AML/CFT laws were necessary for PSMDs as they were inherently exposed to money laundering and terrorism financing risks, and to bring Singapore's regime in line with international standards set by the Financial Action Task Force.

Mr Chan summarised the key differences with the previous legislation being that the new regime integrates the Suspicious Transaction Reporting and Cash Transaction Reporting regimes in the context of precious stones/metals/products. There are more steps in which CDD is required, though its requirements are the same. Anti-money laundering and terrorism financing measures also have the same requirements, but see a change in terminology (from "internal control measures" to "adequate programmes and measures"). Record-keeping requirements, as well as cash and suspicious transaction reporting requirements, remain the same. Additionally, there are increased penalties to disincentivise dealers from internalising the risks, and a requirement for PSMDs to register with the Ministry of Law.

Under the Bill, failure to register will result in a fine of up to $75,000 or 3 years' imprisonment, or both, while failure to carry out CDD, ML/TF requirements or maintain records will result in a fine of up to $100,000. Failure to report cash transactions carries a penalty of up to S$20,000 or 2 years' imprisonment or both. Failure to report suspicious transactions has a fine for individuals of up to S$250,000 or 3 years' imprisonment or both, and a fine of up to S$500,000 for corporate entities.

Implementing AML/CFT measures

Martin Lim from Ingenique Solutions helped participants make sense of the tighter regulatory framework by explaining how AML/CFT measures can be implemented in practice. He explained the various stages in risk assessment and customer due diligence, what to do for CDD, how to identify relevant persons, when to conduct enhanced CDD, and how to report suspicious transactions.

His colleague Leonard Soh explained the benefits of automated customer screening with Ingenique's SentroWeb-DJ platform, which can cut the time spent on customer screening significantly. The platform is a consolidated database of persons and entities known to be involved in global terrorist activities, fugitives wanted by international law enforcement agencies, and politically exposed persons (PEPs). It is linked to Dow Jones' database of more than 2 million profiles of terrorists, criminals, and politically exposed persons.

In particular, software like this can be integrated with individual company policies, procedures, and controls. This would help in ongoing monitoring, as over time, the risk profile of the customer may change, Mr Soh said.

Mr Soh emphasised a risk-based approach in risk assessment, while illustrating the importance of ongoing reporting. He cited a recent court case in which a veteran Managing Director lawyer with 15 years of experience in conveyancing work and a Senior Marketing Director of an international real estate agent were both charged in Singapore for failing to report a suspicious property deal in the Sentosa Cove district to the authorities.

This was despite the fact that the transaction pre-dated the arrest of the buyer, who was implicated in a Ponzi scheme in China. As such, Mr Soh recommended using a commercial tool like SentroWeb-DJ, which automatically monitors names previously searched, and check it against updates to the Dow Jones' AML database, drastically reducing the time needed to check on clients regularly.


Networking session before the seminar


Participants at the AML/CFT briefing session at Enterprise Singapore


SBMA Honorary Legal Counsel Jason Chan briefing SBMA members on the proposed changes to the law

Ingenique Solutions director Martin Lim.

Ingenique Solutions director Leonard Soh


Participants learning about Ingenique Solution's SentroWeb-DJ platform.

SBMA News

By Albert Cheng
CEO, SBMA

It has been a busy quarter for us, meeting various stakeholders both in and around the region, planning for educational seminars/networking events, and gearing up for our annual conference in June. Here is an update of our activities in the past quarter:

December 13: SBMA held a pre-strategy review brainstorming meeting before organising a full strategic review committee meeting in early January.

January 21-22: DCE Gordon Cheung visited precious metals related companies in Hong Kong and Shenzhen as part of an outreach trip.

January 23: SBMA held a brainstorming session to discuss the association's strategy for 2019.

February 15: SBMA organised a briefing for members on AML/CFT for the PSMD sector. Read the event summary on page 15.

Participants at the AML/CFT briefing session

February 26: SBMA held its second stakeholders brainstorming session on regulatory matters related to Internet Investment Gold including Tokenised Gold.

March 21: Albert represents SBMA at Chow Tai Fook's annual dinner in Hong Kong.

From left, Albert Cheng (CEO, SBMA), Kent Wong (MD, Chow Tai Fook), Tsang Pang, President, Asia Jewellery and Simon Yau (Senior Consultant, Metals Focus) at Chow Tai Fook's Annual Dinner 2019.

Exploratory Meetings

During the quarter, we held meetings with the following companies: Andrew Jones, Baird & Co., Clean Mining, Digix Global, Dillon Gage Asia, ECO-Mastermelt, Foresight Bullion India, Grey Innovation, HSBC China, In Gold We Trust Report, Ingenique Solutions, J.Rotbart & Co., Jacaranda Capital Partners, Mileage Communications, Ministry of Law, Nu Fortune Gold, SMU Academy, Perfect Page, Precious Metals Insight, SK Bullion, and Sumitomo Corporate Global Commodities on membership and matters related to market development.

Corporate Membership List (As of 31 March 2019)

SBMA

CATEGORY 1

1. ICBC Standard Bank PLC, Singapore Branch*
2. J.P. Morgan*
3. The Bank of Nova Scotia*

FOREIGN ASSOCIATE

1. ABC Bullion
2. Foresight Bullion India Private Limited
3. G4S International Logistics (Hong Kong) Limited
4. J. Rotbart & Co. (Strategic Transactions Limited)
5. LH Precious Metals Investment Pte Ltd
6. Nadir Metal Rafineri San Ve Tic AS
7. Perfect Hexagon Limited
8. The London Metal Exchange
9. World Platinum Investment Council

AFFILIATE

1. Myanmar Gold Development Public Company Limited
2. Tomei Gold & Jewellery Holdings (M) Sdn. Bhd.

LOCAL ASSOCIATE

1. ANZ Bank
2. Baird & Co. Private Limited
3. Brink's Global Services Pte Ltd*
4. Chow Tai Fook Jewellery Singapore Pte. Ltd.
5. CME Group Singapore Operations Pte Ltd
6. Dillon Gage Asia Pte Ltd
7. ECO-Mastermelt Pte Ltd
8. Global Precious Metals Pte Ltd
9. GoldSilver Central Pte Ltd
10. Heraeus Material Singapore Pte Ltd
11. ICE Futures Singapore Pte Ltd
12. INTL Asia Pte Ltd*
13. Loomis International (SG) Pte Ltd
14. Mahesh & Co Pte Ltd
15. Malca-Amit Singapore Pte Ltd
16. Metal Market Asia Pte Ltd
17. Metalor Technologies (Singapore) Pte Ltd*
18. MKS Precious Metals (Singapore) Pte Ltd
19. MTS Gold Global Trading Pte Ltd
20. Phillip Futures Pte Ltd
21. SEA Bullion Pte Ltd
22. Silver Bullion Pte Ltd
23. Singapore Exchange Derivatives Trading Ltd*
24. Soo Kee Group Ltd (SK Bullion)
25. Standard Chartered Bank
26. Sumitomo Corporation Global Commodities Ltd
27. The Toronto-Dominion Bank, Singapore Branch
28. TXY (Singapore) Pte Ltd
29. UBS AG
30. UOB Bullions and Futures
31. Virtu Financial Singapore Pte Ltd
32. Vrobal Energy & Resources Pte Ltd
33. World Gold Council*
34. YLG Bullion Singapore Pte Ltd*

* Management Committee Members

TOTAL MEMBERS: 48

Membership

Onboarding of ECO-Mastermelt and Vrobal Energy & Resources as Local Associate Corporate Members, and Foresight Bullion India as Foreign Associate Corporate Member.

As of 31 March 2019, SBMA's total membership consists of 48 companies, including three Category 1 members, 34 Local Associate Corporate members, nine Foreign Associate Corporate members, and two Affiliate members.

Upcoming Events

1 April 2019. Carlton Hotel. Singapore.
Launch of Metals Focus *Annual Gold Focus 2019* report, organised by SBMA
Gold Focus is Metals Focus' flagship annual publication on the gold market that provides an in-depth analysis of key developments in the market, including historical and forward-looking statistics. Nikos Kavalis, Founding Partner of Metals Focus, will be delivering a presentation of the findings of the report at the seminar. For more information please contact Lynn Yap at lynn.yap@sbma.org.sg /+65 6823 8010.

7 May 2019. HKEX Connect Hall. Central, Hong Kong.
LME Asia Week 2019
Every year industry leaders and key market players from the metals and financial communities attend LME Asia Week in Hong Kong to discuss the Asian commodities industry and network with peers and clients. For more information please visit: https://www.lme.com/en-GB/Education-and-events/Events/LME-Asia-Week.

9-11 June 2019. PARKROYAL on Beach Road. Singapore
Asia Pacific Precious Metals Conference (APPMC) 2019
Organised by SBMA and supported by Enterprise Singapore, APPMC aims at developing and strengthening a unified body in the Asia Pacific for the bullion market. This year marks the 25th anniversary of SBMA so come join us in celebrating SBMA's Silver Jubilee at the conference. More information, updates and details of past conferences are available at http://www.asiapacificpmc.com.

About Crucible

Crucible is published quarterly by SBMA. If you would like to contribute an article, news or information to Crucible, place an advertisement in Crucible, or if you require further information, please contact:
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