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# THE FUTURE OF INDIA'S GOLD INDUSTRY

BY NEELAMBARI DASGUPTA & SRIVATSAVA GANAPATHY, *Bullion Bulletin*

*The authors present a snapshot of policy framework for gold in India over the last 27 years and look at the possible directions in policy going forward.*

India is the world's second-largest consumer of gold. However, unlike China, the world's largest consumer of gold, India imports all of its metal, paying for it in US dollars. Gold is among the country's top five imported goods, where overall imports exceed the value of overall exports. The government thus, strives to strike a fine balance between the quantum of gold imports and the need for US dollars for the rest of the economy.

## 1992–1997: BAN ON GOLD LIFTED

Until 1991, the import of gold was prohibited. However, 1992 heralded the biggest change towards a market-driven economy. By 1994, non-resident Indians (NRIs) were permitted to bring in gold, subject to certain quantitative limits. This marked the beginning of gold imports into India.

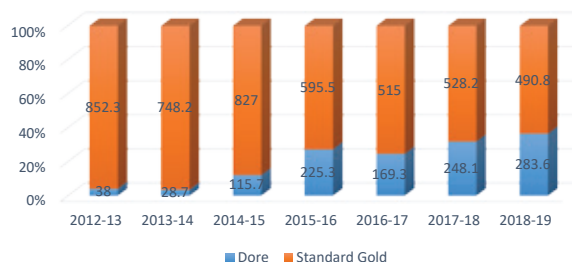
## 1997–2011: THE GOLDEN AGE

This period witnessed major reforms and developments in the gold markets in India. First, the government permitted gold to be imported through designated state agencies such as MMTC and State Trading Corporation. Later, the government permitted certain banks to import

gold on a consignment basis. The list of agencies permitted to import gold was expanded to include export houses and star trading houses. By 2000, there were about 50 nominated agencies comprising government trading companies, banks and export houses, which were allowed to import gold. This structure helped alleviate supply constraints and resulted in significant drop in the premium on gold in India.

**THE FIRST DECADE OF THE 21ST CENTURY WITNESSED SIGNIFICANT DEVELOPMENTS IN THE MARKET, WITH THE LAUNCH OF NEW PRODUCTS.**

**Trends In Gold Imports To India  
Value In Tonnes**



Source: World Gold Council, India & India Gold Policy Centre (IGPC)



The first decade of the 21st century witnessed significant developments in the market, with the launch of new products. First, regulated, electronic, nationwide multi-commodity exchanges came into being in 2004. These institutions listed gold and silver futures contracts. As these exchanges traded 1 kg 995-fineness gold futures (and 30 kg silver bars) in Indian rupees, they became very popular and volumes picked up within a short period of time. With a reference price available, transparency in trade improved and new distribution channels started emerging. In many ways, the trade became more organised. In 2007, India permitted the launch of gold exchange traded funds (ETFs). This too became very popular in a short span of time, despite higher expense ratios. By 2011, there were about 14 asset management companies (AMCs) offering gold ETFs on regulated exchanges managing close to 35 tonnes of gold.

One of the factors that contributed to the growth of the gold market during this period was the secular rise of the price of gold in international markets. This was amplified further in India by currency depreciation. As a case in point, the average price of gold grew from Rs. 5,850.00 per 10 gm towards end of 2004 to Rs. 26,400.00 per 10 gm by end-2011, a whopping 351% jump in seven years. Higher returns drove demand for gold higher during this period, with gold imports crossing US\$50 billion in 2011–12. The spike in gold demand, pushed the trade deficit beyond 4% of GDP for the first time.

#### 2012–2014: “IMPORT AND CONSUME” UNSUSTAINABLE

As gold imports were affecting the rest of the economy, the government thought it prudent to restrict gold imports using tariff measures. Until the end of 2011, the import duty on gold was specified in Indian rupees per 10 gm and was not linked to the price of gold. At Rs. 300 per 10 gm, the duty component was around 1.5% of the then prevailing price. In January 2012, the government changed the rule and linked the import duty on gold to its price, fixing it at 2% ad valorem. From January 2012 through August 2013, the import duty on gold was successively raised from 2% to 10% ad valorem.

**FROM JANUARY 2012 THROUGH AUGUST 2013, THE IMPORT DUTY ON GOLD WAS SUCCESSIVELY RAISED FROM 2% TO 10% AD VALOREM.**

Despite the steep increase in customs duty, the quantum of imports did not reduce markedly as anticipated. So, in August 2013, the country began a quantitative restriction plan famously referred to as the “20:80 scheme”, whereby it linked gold imports to the export of value-added gold products to an extent of at least 20% of imports. This had the desired impact of curtailing gold imports immediately. However, it also had two major negative effects: the channels of import were restricted to a select few, thereby increasing the premium on gold, and the higher customs duty coupled with quantitative restrictions gave rise to a parallel market in gold.

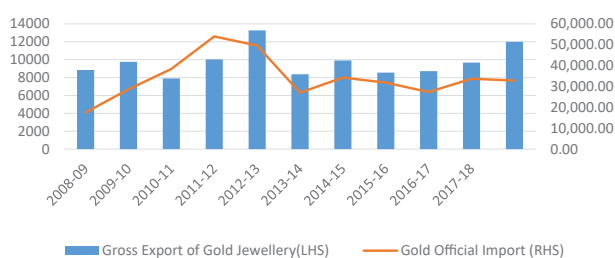
The government also thought it fit to develop the gold refining industry and thus incentivised the import of gold dore with a duty differential of 2% in favour of dore. Only licensed refiners were permitted to import dore, and only directly from mines of the producers.

**THE INTRODUCTION OF A GOODS AND SERVICES TAX (GST) IN 2016 AND THE PUSH FOR DIGITISATION POST-DEMONETISATION ARE TWO KEY DEVELOPMENTS OUTSIDE THE GOLD INDUSTRY THAT HAD MANY BENEFICIAL IMPACTS ON THE SECTOR.**

#### 2014–PRESENT: FINANCIALISATION OF GOLD

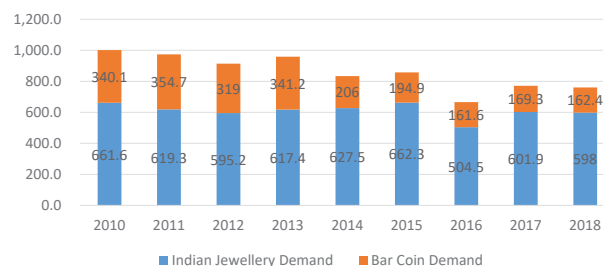
In April 2014, a new government came to power. As a first step, it abolished the 20:80 scheme. The government also felt the “import and consume” model had to be capped at a manageable level. On 5 November 2015, three new schemes were launched. To tap gold kept in private households, temples and trusts (conservatively estimated at 20,000 tonnes) and reduce the reliance on imported gold, the government announced a Gold Monetisation Scheme (GMS) (see Box 1). To discourage the purchase of physical gold for investment purposes, the government launched a sovereign gold bond scheme (SGBS) with tax-free interest and a tax waiver on capital gains (see Box 2). Third, the government launched a gold coin programme to utilise gold accumulated under the GMS. In the past four years, GMS has only gathered about 15 tonnes. SGBS, although more successful in gaining participation in tier-2 and tier-3 cities, have not been able

**Gross Export of Jewellery vs Gold Official Import Value in US\$ Million**



Source: Director General of Foreign Trade (DGFT), Gems & Jewellery Export Promotion Council of India (GJEPCI)

**Indian Gold Demand Value in Tonnes**



Source: World Gold Council India



to gain substantial volumes. India Gold Coin, a pride of India, is still to attain critical mass.

The introduction of a Goods and Services Tax (GST) in 2016 and the push for digitisation post-demonetisation are also two key developments outside the gold industry that had many beneficial impacts on the sector. GST drove compliance and transparency, while digitisation led to the evolution of “digital gold”, which has amassed over 70 million investors in just three years.

**THROUGH A CONSULTATIVE PROCESS  
WITH INDUSTRY STAKEHOLDERS  
GOVERNMENT THINK TANK  
NITI AAYOG PUBLISHED A  
COMPREHENSIVE REPORT TITLED  
“TRANSFORMING INDIA’S GOLD  
MARKET”, WITH RECOMMENDATIONS  
TO DEVELOP THE SECTOR.**

The government has also realized that the gold sector is vital for employment generation, as 60% of gold goes towards jewellery making, a sector that employs over 5 million people. Through a consultative process with industry stakeholders government think tank Niti Aayog published a comprehensive report titled “Transforming India’s Gold Market”, with recommendations to develop the sector. They include: (i) setting up a gold board – an agency responsible for all policies pertaining to gold, (ii) setting up a domestic council – a multi-stakeholder advisory body to the government, (iii) establishing India Good Delivery Norms along the lines of global Good Delivery Standards, (iv) establishing a Spot Gold Exchange, (v) relaunching the gold monetisation scheme, (vi) permitting commercial banks to operate as full-fledged bullion banks, (vii) opening centres to train artisans, (viii) upgrading and modernising technology infrastructure in manufacturing clusters for gold jewellery manufacture for exports, (ix) protecting consumer interest and upholding quality through a compulsory hallmarking programme, and (x) expanding and deepening India’s presence in global gold jewellery exports.

Of these, a Domestic Council has been established, India Good Delivery norms have been finalised and are awaiting final clearance for implementation, and a timeline has been announced for transition to compulsory hallmarking. Work on the other areas are being aggressively pursued.

**POTENTIAL CHALLENGES GOING FORWARD:**

1. High customs duty on gold imports (12.5%) makes smuggling attractive. Organised business finds it extremely difficult to compete with a thriving parallel market. Overseas banks that were hitherto supplying gold on consignment are concerned about their ability to continue with the model on the back of reduced and inconsistent demand. Paradoxically, the revenue from customs duty on gold (estimated at about US\$3 billion annually) has become an important component of the country’s budget. The government considers gold as non-essential and believes that consumers who want gold do not mind paying the duty, so the challenge is to find a balance where the government’s revenue interests are secure, while at the same time ensuring organised businesses do not face existential challenges from the parallel market.
2. The need for bullion banking is clearly understood by stakeholders. However, the country’s banking sector has been facing severe challenges with increasing non-performing assets and an eroding capital base. Second, banks do not understand physical gold and hence do not deal with bullion directly. In the absence of a strong ecosystem such as regulated and accredited refineries, a fool-proof transparent aggregation system with approved aggregators and regulated vaulting and logistics service providers, there is an opinion that banks may be exposed to uncontrollable risks in the present environment.
3. Gold monetisation is a challenge as well as the best possible answer to many of the sector’s problems, but incentives to make the GMS programme attractive for depositors of gold and other participants are still unclear.
4. The government is keen to make the gold sector transparent and organised. However, in the current market, incentives are stacked against organised players. The risks are increasing for banks and financial institutions while rewards are sliding. This has to be addressed immediately.

In summary, over the past 20 years, the Indian government has changed its view on gold from being a means of savings by the poor to a non-essential revenue balancing item on the budget. Thus, while it accepts gold imports within certain limits, it wants its share of revenue as duties on imported gold or gold dore. The industry is fine with this, provided its operations do not suffer from the import of illegally smuggled gold.

**BOX 1****GOLD MONETISATION SCHEME (GMS)**

GMS was announced in the Union Budget speech of 2015-16 and was formally launched by Prime Minister Narendra Modi on 5 November 2015. The scheme replaced the existing Gold Deposit and Gold Metal Loan schemes. The scheme has several aims:

1. To deploy the idle gold lying with households, trusts and various other institutions and put them to productive use.
2. To provide benefits to gold depositors by providing interest on gold holdings in their Gold Savings Account.
3. To provide gold loans to small and medium enterprises in the gems and jewellery sector through bank loans.
4. To reduce the demand for import of gold in the long run. According to the Department of Economic Affairs, Ministry of Finance, until November 2018, a total of 15,433 kg of gold was deposited under the GMS. A total of 712.985 kg of Indian Gold Coins have been sold as per the data.

**BOX 2****SOVEREIGN GOLD BONDS (SGB)**

SGBs are government securities issued by the Reserve Bank of India (RBI) on behalf of the central government and are denominated in grams of gold. SGBs were launched in 2015 with a view to shift retail investment from physical gold to paper gold. The scheme focuses on retail investors who prefer to invest in physical gold. The bonds carry a tenure of eight years, with provisions of premature redemption option after five years as well. These bonds are issued at the prevailing price, as notified by the India Bullion Jewellers Association to the RBI. The bonds carry an interest of 2.5% per annum, paid semi-annually. Retail investors can invest only up to a certain amount in SGBs.

From 2015 to 31 March 2019, the government issued SGBs 27 times, with investors buying 25 million of units of 1 g each (roughly 25 tonnes of gold). SGBs took a lot of volume out of gold ETFs, as it offered better incentives. However, the SGB secondary market is not yet mature. Recently, the Reserve Bank of India started buying physical gold to cover SGB exposure to price risk.

The industry is keen on the government moving forward with its reform agenda for the sector. The industry has evolved a new way of working together (see Box 3) and is aligned with the priorities of the government. As such, stakeholders should work together to bring most of the recommendations to fruition in the next two years. With an industry driven by regulated institutions based on globally accepted norms of transparency, traceability and consumer protection principles, the future of India's gold industry looks bright.

**BOX 3****THE ROLE OF WORLD GOLD COUNCIL INDIA**

World Gold Council (WGC) India has been able to provide thought leadership as well as act as a critical bridge between policy makers and various industry associations. WGC has played a pivotal role in three important areas: publishing white papers on the reform agenda; mobilising industry associations to be proactive about reform; and providing financial support for the establishment of critical transformative infrastructure.

WGC India led the discussion on several important issues pertaining to gold industry reforms. It was WGC India that published a white paper on India's need to have a comprehensive gold policy, pushing the government to pursue the agenda through its policy think tank, Niti Aayog. Likewise, WGC India has published several important discussion papers on topics such as "Blueprint for Spot Gold Exchange in India" and "The Need for Bullion Banking in India". Most important is the process WGC has followed on each of these initiatives. Each of the research papers was issued after a series of deliberations by a steering committee comprising representatives from leading associations in India, overseas experts and stakeholders. For instance, "Blueprint for Spot Gold Exchange in India" was the culmination of efforts of a 27-member steering committee comprising stakeholders across the industry. Such an approach, although time consuming, results in broad consensus among industry players.

WGC is the sponsor of the India Gold Policy Centre (IGPC) at the Indian Institute of Management, Ahmedabad. IGPC aims to create a robust knowledge base on the gold sector to provide the government of India with policy inputs. Within a short span of four years, IGPC has grown in stature and is providing critical policy inputs to the government. WGC India, along with MMTC PAMP India, set up the Precious Metals Assay & Training Institute (PMATI) in 2018 to train stakeholders on assaying and hallmarking through a structured classroom-based training programme and hands-on laboratory sessions. The aim is to provide skilled manpower the industry needs in the future. WGC India plans to support many more of such initiatives in the future.



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# THE GOLD MARKET: HOW HISTORY HAS SHAPED THE PRESENT

BY RHONA O'CONNELL, *Head of Market Analysis, EMEA and Asia, INTL FCStone*

Gold's history goes back at least 6,490 years with the earliest known gold artefact dating to 4,475 BCE in Egypt. Nubia, as it was then known, was the major source of readily found alluvial gold. Nubia lay along the banks of the Nile between southern Egypt and central Sudan and was also the conduit for trade between products from southern Africa into the Mediterranean. Gold's beauty, malleability and ductility meant that it was not long at all before it became a key trading instrument. Pre-eminent gold historian Timothy Green records that merchants were underwriting contracts in gold ingots in Mesopotamia before 2000 BCE. Coinage came roughly 1,500 years later.

China, now the world's largest gold mine producer and gold metal consumer, first became aware of gold through trade with her neighbours. Again, Green records that the early ornaments (cast plaques of animals) match those of Scythian nomads who were on the move in the 7th century BCE and it did not take long for gold to become a prized asset, usually bartered for with silk, and largely comprising ornaments and items of jewellery. In the first quarter of the first century CE, Chinese Emperor Wang Mang held roughly 155 tonnes of gold in the treasury, equivalent to \$7.2 billion today. Those holdings eroded over time, but now, of course, the level of the People's Bank of China's gold holdings is a frequent topic of conversation in the markets.

Gold has been a currency since King Croesus of Lydia (in modern-day Turkey) had the first gold coin struck in the sixth century BCE (roughly 550 BCE) and by the 18th century, gold standards were starting to appear in the international monetary system (with the exception of China, which preferred silver) although silver retained a lasting function as a currency, usually for domestic transactions. We shall return to the monetary and central bank angle later in this piece.

First though, it is interesting to trace how the centre of gravity of modern-day gold demand has shifted. In 2000, India and China accounted for 20% and 6% of world jewellery demand respectively. India had gone through a process of opening up the market, and China had yet to do so. Over the following eighteen years, the share shifted markedly as China's market exploded, rising to 688 tonnes in 2018 and commanding 32% of the total. With the exception of 2017, China has been the largest individual gold jewellery consumer since 2013 and the two countries consistently account for roughly 60% of total global demand. Jewellery markets in the rest of Asia have largely drifted lower, but in 2019 the whole sector was under intense pressure in the third quarter following gold's sharp re-rating between end-May and end-September. It took until mid-October before the local markets started to show any fresh interest into buying on dips in price (while the Indian subcontinent and parts of the Gulf weren't reinvigorated until the sharp price falls in early

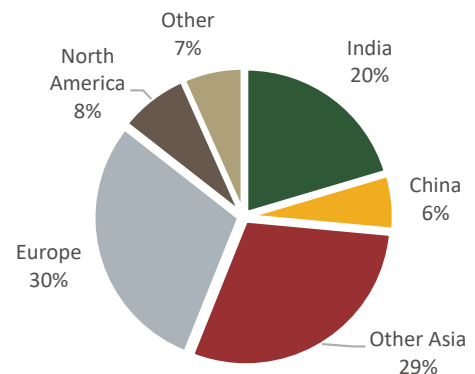


**IT IS HIGHLY LIKELY THAT 2019 WILL HAVE BEEN A RECORD FOR NET GOLD UPTAKE AND TAKEN WITH ETF ACQUISITION, THE TWO SECTORS ACCOUNT FOR OVER 800 TONNES OF METAL.**

November). This was a longer adjustment to new price ranges than the markets usually take, but it can be ascribed to economic and geopolitical uncertainty and the associated reluctance to spend.

This brings us to recent central bank activity, with net purchases running, on a pro rata basis, at record levels in the first nine months of 2019. Volume buying has been concentrated among a few countries,

Regional jewellery demand, 2000







**The Pactolus river in Turkey, scene of a gold rush in 560-550 BC and where Jason is supposed to have sought the Golden Fleece**



Source: Rhona O'Connell

**One of the original gold coins from Lydia, housed in a Turkish Museum**



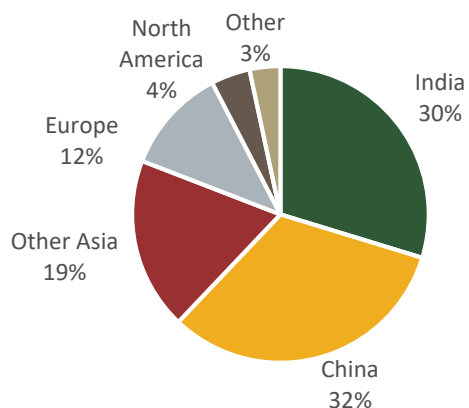
Source: Rhona O'Connell

notably Russia and China, as diversification policies, coupled, in Russia's case at least, with bolstering the current account deficit (note: purchases of domestic mine production bolsters reserves, while buying on the international market diversifies but does not necessarily boost overall combined reserves by much). Other countries include Turkey, Kazakhstan and Poland. We mentioned the gold standard earlier; a number of Western countries have legacy gold holdings from the eras of the gold standard and thus disproportionately high weightings. If these are stripped out then the average gold weighting in the world's central banks is 6% of gold + foreign exchange combined. Including the overweight countries, the average is 12%. China's current weighting is 2.9%, while elsewhere in Southeast Asia the heaviest weighting is in the Philippines, with 10.8%, according to data provided by the IMF and published by

the World Gold Council, and most of the countries in the region only have 4% or below.

It is highly likely that 2019 will have been a record for net gold uptake and taken with ETF acquisition, the two sectors account for over 800 tonnes of metal. Given the collapse in the physical retail market in the middle of the year, these two sectors are vital in giving the market a degree of solidity. The message from the official sector is that gold's historical role as a mitigator of risk remains unaltered.

**Regional jewellery demand, 2018**



**RHONA O'CONNELL** has over 30 years' experience as a commodities analyst, and is a recognised authority in the precious metals sector. She has worked as a metals market analyst in many aspects of the industry, including the mining sector, commodities broking at Rudolf Wolff, where she was a major contributor to Wolff's Guide to the LME, and in the equity markets and investment banking, where at

Shearson Lehman she was the Group Precious Metals analyst. Rhona has held Extel ranking (2nd place) in the gold sector and has been the Association of Mining Analysts Commodities Analyst of the year. After a number of years running the GFMS team at Thomson Reuters, she is now the Head of Market Analysis at INTL FCStone, where she is developing a team of analysts to support the EMEA and Asia sectors in particular.



# CHINA LOOKS TO SOUTHEAST ASIA

BY SBMA

Once a relatively closed market, Southeast Asia's gold jewellery market has been gradually opening up and undergoing reforms, and is now growing rapidly. Economic growth in the region is stimulating robust gold demand. In the past nine years, gold and jewellery demand in Southeast Asia has grown steadily. Gold consumption in the 10 ASEAN countries reached 309 tonnes in 2018, second only to China and India.

Chinese firms are eager for a piece of the pie. Some large gold and jewellery companies have begun to cooperate with leading local companies to export products, technologies and other services. China not only has a large output of gold jewellery, but is also an important gold jewellery manufacturing and innovation hub. Being located close to Southeast Asia means that collaboration opportunities abound in gold jewellery design, process technology and intelligent manufacturing, and more.

## CHINESE JEWELLERS GOING GLOBAL

Gold jewellery processing and design firm Batar Group from Shenzhen, China, is already active in Singapore, Malaysia, Thailand and other countries with large Chinese communities. The firm works with leading gold and jewellery companies to supply wholesale bridal and retail jewellery products that cater to the local market.

In recent years, Batar Group has cooperated with leading companies from Singapore, Malaysia to Hong Kong. Batar hopes that soon, its gold products can be directly exported to ASEAN from its Shenzhen, Hangzhou and Tianjin production facilities to reduce operating costs and improve efficiency.

At the Asia Pacific Precious Metals Conference (APPMC) in June 2019, Batar Group chairman Mr Edmund Chau said the firm would strengthen exchange and cooperation with overseas markets, continuing the development of gold products and exploring the essence of 5,000 years of Chinese culture, as well as combining Southeast Asia's culture with creative designs and high-tech craftsmanship to provide exceptional cultural products made in gold for the ASEAN market.

In Thailand, Shenzhen-based Yuehao Jewellery supplies wholesale gold jewellery and exports technology and equipment that have raised the efficiency and standard of domestic jewellery production. The firm has started to explore the Indonesian market.

Mr Defen Zhou, president of Yuehao, said he believes the local Chinese have enough disposable income to spend on gold jewellery, and is also confident about the Singapore market, which is comparatively more developed.

Chinese jewellers going global respect the diversity of preferences in Southeast Asian market and cater their offerings to the local gold and jewellery culture. For example, in the process of exploring and developing the Thai market, Yuehao Jewellery has adopted many Thai designs into its products to attract domestic consumers.

## THE UNTAPPED LOCAL CHINESE MARKET IN SOUTHEAST ASIA

Even though there is a gap in the development of the Southeast Asian jewellery market in terms of product purity and market maturity compared to the Chinese market, there is no difference in the popularity of gold among locals.

According to the World Gold Council's Gold Demand Trends Q1 2019 report, gold jewellery demand remained stable in Malaysia and Thailand, while Indonesia and Vietnam have stronger demand, largely from the local Chinese market.

Seeing the market potential and strong consumption, especially among local Chinese, SK Jewellery Group, a well-known local jewellery retailer in Singapore, first introduced 24K gold jewellery to Singapore



in 2012 and became the first retailer to sell 9999-purity gold in the local market. The firm partners Batar and Yuehao in its design and manufacturing process.

Retailers like Chow Tai Fook from Hong Kong have also started operations in Southeast Asia. Today, Chow Tai Fook has a network of outlets in Malaysia, Singapore, Vietnam and Cambodia.

Customs data shows that in 2018, mainland China and Hong Kong exported a total of \$621 million in gold jewellery to Southeast Asia. Gold jewellery exports also reached 4.6 tonnes, with a growth rate of 3.6%, accounting for 87% of exports.

### OPPORTUNITIES AND CHALLENGES

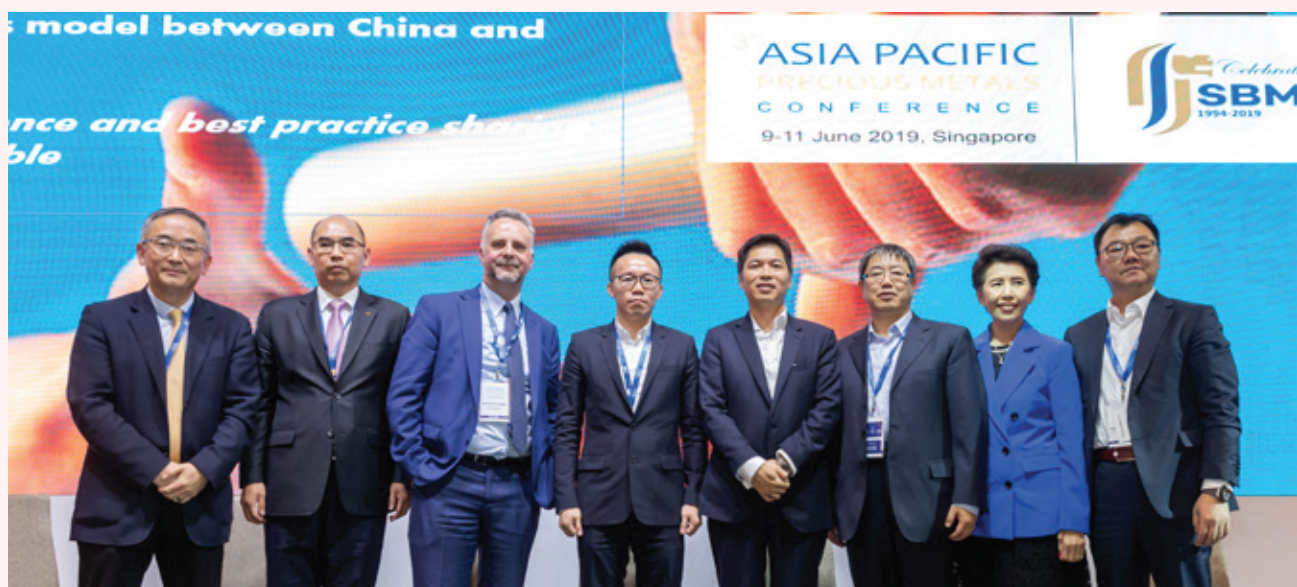
While more Chinese gold and jewellery companies are paying attention to the Southeast Asian gold market, there is no denying that their entry to markets there has not been as fast as expected. Many firms are finding hard to replicate the rapid growth of China's gold market in Southeast Asia – the region's gold business needs to develop incrementally and cannot grow as fast as China's.

Today, China is one of the world's largest gold jewellery processing and manufacturing centres, with exquisite processing technologies and rich labour resources. New Chinese products and technologies

such as solid gold, coloured gold and 5G gold rank among the forefront globally. Prices of Chinese gold jewellery products are also competitively priced. As such, there is an opportunity for China's gold and jewellery industry to cooperate with ASEAN enterprises and develop the Southeast Asian markets.

Meanwhile, the transformation and upgrading of China's gold and jewellery industry are accelerating. As the younger generation becomes the main consumer group, China's gold jewellery innovation has hastened and product structure has changed significantly: 3D solid gold, mirror gold, 18K gold and 22K gold are becoming more popular among the new generation of consumers who want fashionable designs and cheap prices. At the same time, ancient gold, 5G gold, and HD gold are growing in popularity. In addition, there is a large space for cooperation in the financial sector and e-commerce.

"With the rapid development of technology, more intelligent manufacturing will take place in the jewellery industry. While production efficiency was greatly improved by automation and mechanisation, we can also expect China's jewellery manufacturing capacity will be further improved. The large innovative manufacturing bases in China can fully meet the needs of local and overseas retailers and wholesalers", Mr Roland Wang, World Gold Council managing director, China, said at the APPMC.



From left, Roland Wang (WGC), Datuk Ng Yih Pyng (Tomei Consolidated Bhd), Nicholas Frappell (ABC Bullion), Edmund Chau (Shenzhen Batar Investment Holding Group), Bobby Liu (Chow Tai Fook Jewellery Co. Ltd.), Zhang Yongtao (China Gold Association), Mary Lim (SK Jewellery Group), Stephen Defen Zhou (Yue Hao Jewellery Group)





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# EUROPE'S RENEWED INTEREST IN GOLD

BY RONALD STOEFERLE, *Managing Partner, Incrementum AG*

In Europe, institutional and individual investors alike are showing renewed interest in gold. The reasons for this trend are manifold: negative interest rates, the set-back of equity markets in Q4/2018, slowing economic growth, and a growing distrust in the sustainability of the global political and economic order and the stability of financial markets.

Until the Great Financial Crisis of 2007/2008, central banks were net sellers of gold. Gold was considered a “barbarous relic”, a non-interest bearing reserve that should be substituted for interest-bearing assets. This view has changed since then. In particular, the so called axis of gold – a term coined by investor and economist Jim Rickards to refer to Russia, China, Iran and Turkey – have significantly increased their gold reserves in the last decade. In 2018, central banks of EU countries joined the group of gold advocates and buyers.

With regards to gold's role in central bank reserves, two recent statements by European central banks merit closer scrutiny. When the Central Bank of Hungary (MNB) conducted its first gold purchases since 1986 last year, increasing its gold reserves tenfold, it published the following statement:

*In normal circumstances, gold has a confidence-building feature, i.e. it may play a stabilising role and act as a major line of defence under extreme market conditions or in times of structural changes in the international financial system or deep geopolitical crises. In addition, gold continues to be one of the safest assets, which can be related to individual properties such as the limited supply of physical precious metal, which is not linked with credit or counterparty risk, given that gold is not a claim on a specific counterparty or country.<sup>1</sup>*

Central banks are known for their balanced communication, as they want to avoid any overreaction by the public, which may have severe economic and financial consequences. Against this background, MNB's frankness is as surprising as telling. Yet, although a member of the European Union since 2004, Hungary has not joined the eurozone and will not join it anytime soon. MNB governor Gyorgy Matolcsy even called the euro a “strategic error” in an opinion piece published in the Financial Times in early November.

Even more surprising is a statement on the website of the Dutch central bank, De Nederlandsche Bank (DNB), as the Netherlands adopted the euro right from its inception 1999. In defence of its large

gold holdings that has reached 612.5 tonnes, worth over 6 billion euros, the bank said in a statement on its website:

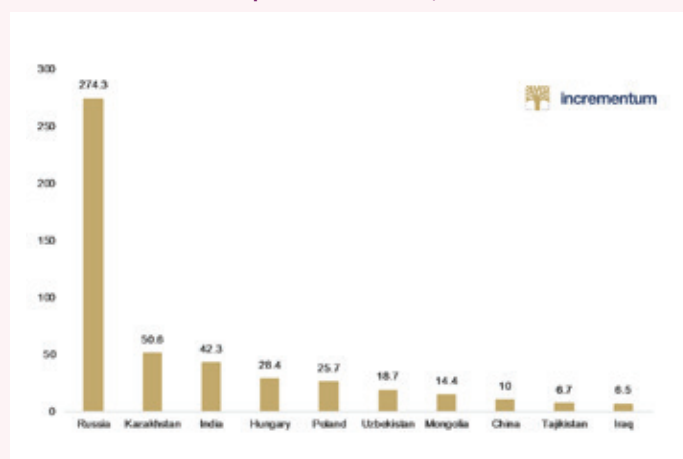
*Shares, bonds and other securities are not without risk, and prices can go down. But a bar of gold retains its value, even in times of crisis. That is why central banks, including DNB, have traditionally held considerable amounts of gold. Gold is the perfect piggy bank – it's the anchor of trust for the financial system. If the system collapses, the gold stock can serve as a basis to build it up again. Gold bolsters confidence in the stability of the central bank's balance sheet and creates a sense of security.<sup>2</sup>*

Europe is a latecomer in joining the global drive by central banks to increase gold reserves. In buying 657 tonnes of gold in 2018, central banks globally have made the largest purchases of gold since the end of Bretton Woods in 1971. Russia (274 tonnes), Kazakhstan (50 tonnes), and India (42 tonnes) were the largest buyers, while Hungary and Poland – another EU member state that has not introduced the euro and has no immediate plans to do so – rank fourth and fifth in this list. Poland made its largest purchase since 1998.

The high demand from central banks continued in the first three quarters of 2019. According to the World Gold Council, central banks increased their gold reserves by 547.5 tonnes at the end of September, 12% higher than the same period in 2018.<sup>3</sup> It is thus quite likely that a new record will be set in 2019. These developments are in line with the results of a survey conducted by the World Gold Council: 76% of central banks consider gold as a highly relevant safe haven asset, and 59% valued gold's effectiveness as a portfolio diversifier.<sup>4</sup>

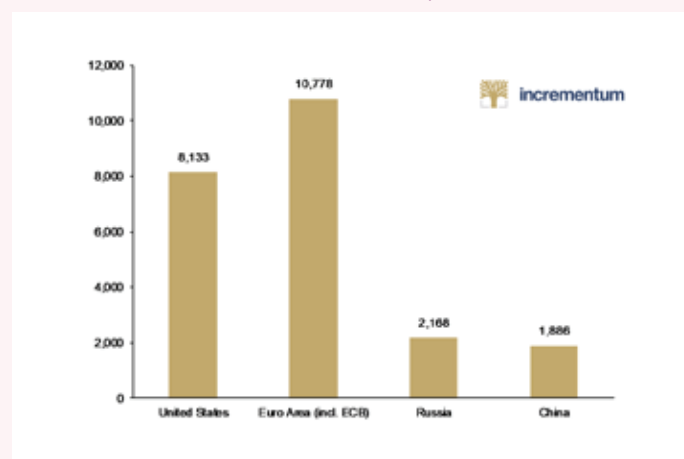
It might come as a surprise that the gold reserves of the 19 countries in the eurozone are almost one-third higher than those of the United States (US). Russia's and China's gold reserves trail far behind, despite both countries' gold purchases last year, which in the case of Russia was more than five times of second place Kazakhstan.

Gold purchases (tonnes), 2018



Source: World Gold Council, Incrementum AG

Gold reserves (tonnes), 2018



Source: World Gold Council, Incrementum AG

## ETFs

Interest in gold among financial investors is slowly rising again. This can be seen by the amount of inflows into gold ETFs, which have been on the rise since the end of 2015. For us, this indicator is representative of Western financial investors, who view exchange-traded funds (ETFs) as the primary instrument for managing their gold exposure. This is also reflected in the fact that gold ETF inflows follow an extremely procyclical pattern.

Geographical segmentation shows that in recent years, European investors have weighted gold ETFs more strongly than their North American peers. Since 2016, European exchange-traded products (ETPs) have increased rapidly and have reached a new record high. Assets under management in European gold ETFs rose to 1,134 tonnes at the end of 2018. This is now equivalent to 46% of the total market.<sup>5</sup>

We interpret this increase primarily as a consequence of the devastating zero or negative interest rate environment, aggressive European Central Bank (ECB) policy, smoldering fears of recession, and political developments, as well as the rather weak stock market performance in Europe, especially relative to US markets.

## PRIVATE INVESTORS

Despite significant differences across Europe, private investors continue to show a strong interest in gold, according to the Edelmetall-Atlas Schweiz report published by the University of St. Gallen produced in cooperation with Philoro Schweiz.<sup>6</sup> After real estate but still ahead of equities and fund investments, gold ranks second among the most popular forms of Swiss investment. Almost every fifth Swiss national considers it likely that he or she will buy gold in the next twelve months.

According to the report, the most important reason why investors buy gold is for long-term investment, followed by security, stability, asset accumulation, and finally returns. This shows that the typical Swiss gold investor is long-term-oriented and not focused on short-term speculative gains. Of interest too are the results regarding the question as to where people prefer to buy gold. In all age groups, the investor's home bank ranks first; nevertheless, there are clear differences in purchasing behavior among different age groups. The older the investor, the more often the home bank is chosen. Second among the youngest investors (18–29 years) is buying gold online, while among 30–39 year-olds, physical outlets of precious metal dealers take the second spot.

The comparatively high affinity of the Swiss for gold is summarised in the following chart. The demand for gold by private investors in Switzerland exceeds the US and on a per capita basis is significantly higher than the demand in Germany or China.

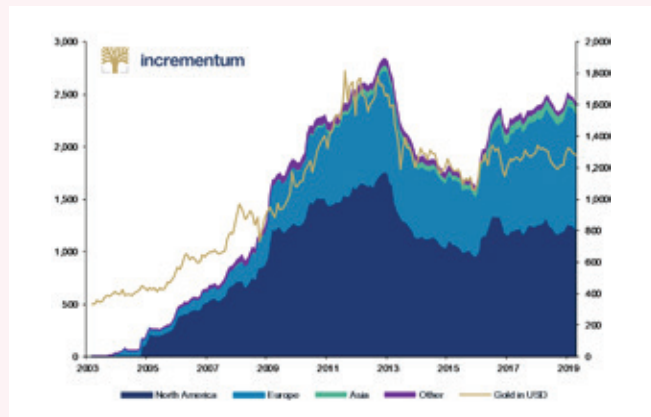
## CONCLUSION

Europe might be called the “old continent” and be struggling in various fields such as economic growth, innovation, and demography. Nevertheless, or rather because of this, interest in gold, a crisis-proven asset, has increased in recent years, not only among private and institutional investors, but also among central banks. Far from being a “barbarous relic”, gold is making a strong comeback on the old continent, which seems to be only in its early stages.



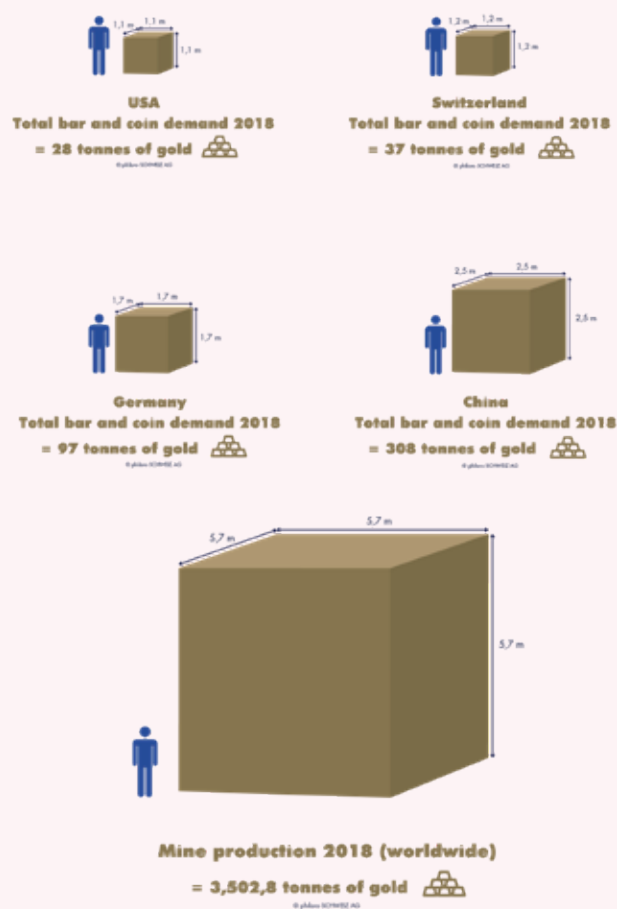
**RONALD STOEFERLE** is managing partner of Incrementum AG, responsible for research and portfolio management. In 2007, he published his first *In Gold We Trust* report. Over the years, the study, which is available in English, Mandarin and German, has become one of the benchmark publications on gold, money, and inflation. He is an advisor for Tudor Gold Corp. (TUD), a significant explorer in British Columbia's Golden Triangle, and a member of the advisory board of Affinity Metals (AFF).

ETF gold holdings (tonnes) and gold price (US\$), January 2003 to April 2019



Source: World Gold Council, Bloomberg, Incrementum AG

Gold demand (tonnes) and mine production (tonnes), 2018



Source: University of St. Gallen, Philoro Schweiz

- 1 Press release: “Hungary's Gold Reserve Increase Tenfold, Reaching Historical Levels”, Magyar Nemzeti Bank, October 16, 2018. <https://www.mnb.hu/en/pressroom/press-releases/press-releases-2018/hungary-s-gold-reserves-increase-tenfold-reaching-historical-levels>.
- 2 De Nederlandsche Bank (DNB): DNB's gold stock. <https://www.dnb.nl/en/payments/goud/index.jsp>.
- 3 World Gold Council: “Gold Demand Trends Q3 2019”, November 5, 2019. <https://www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-q3-2019/central-banks-and-other-institutions>.
- 4 World Gold Council: “Gold Demand Trends Full year and Q4 2018”, January 31, 2019. <https://www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-full-year-2018/central-banks-and-other-institutions>.
- 5 World Gold Council: “Market Update: European ETPs reach record highs”, April 17, 2019. <https://www.gold.org/goldhub/research/market-update/european-etps-reach-record-highs>.
- 6 Philoro Edelmetalle. Goldstudie Schweiz, May 2019. <http://www.goldstudie.ch>.



# A GOOD YEAR OF PROGRESS FOR SBMA

BY SBMA

“2019 has been a good year of progress, and 2020 promises to be another year of note”, chairman Martin Huxley said at the Singapore Bullion Market Association’s Annual General Meeting on 26 November.

Indeed, the past year, SBMA’s Silver Jubilee, was full of new milestones for the association. They include the continued growth of the Asia Pacific Precious Metals Conference (APPMC), which saw 390 delegates from 180 companies in 27 countries attending its third edition, the conference’s highest ever.

Mr Huxley noted the “exceptional growth” of SBMA, which began in 1993 as an informal grouping for industry members, and is now playing a crucial role in driving the development of the precious metals industry in Singapore and beyond.

SBMA is also enjoying a growing revenue base and sponsorship arrangements, with a 95% growth in website traffic and 59% increase in page views in the past year, along with increased interaction on its social media pages.

The association has also been successful in initiatives set out in Enterprise Singapore’s three-year LEAD grant, which expired in June, Mr Huxley said. With a constant stream of interest in the association, he expects SBMA’s membership base to grow to over 50 in the next two years.

## HEALTHY COLLABORATION

SBMA CEO Albert Cheng said that SBMA’s success and growth in recent years is because it is “truly a member-led association”. “Our members compete but also collaborate healthily because we know the cake is big enough”, Mr Cheng said.

He highlighted the priorities for the association in the coming year: membership recruitment and retention. “Members are the core of the association, and Singapore is an important node in the global bullion market. We need the help of members to develop APAC as an innovation hub for precious metals”, Mr Cheng said.

In addition, Mr Cheng said SBMA would continue to maintain its core activities, but look for new areas to build on, and continue building Singapore as an enhanced and holistic hub for the precious metals market in Asia.

## MANAGEMENT COMMITTEE 2020-2021

During the AGM, members voted in SBMA’s new nine-member Management Committee for a two-year term. The Management Committee for 2020-2021 comprises SBMA’s three Cat 1 members – ICBC Standard Bank, JP Morgan and ScotiaBank – and World Gold Council, TD Securities, Metalor, INTL FCStone, Brinks, and YLG Bullion.

Mr Martin Huxley from INTL FCStone was re-elected to a second term as chairman, while Mr KL Yap from Metalor will also serve a second term as vice-chairman.





# SBMA News

BY ALBERT CHENG, CEO, Singapore Bullion Market Association

SBMA would like to wish our members and friends a wonderful festive season and a very Happy New Year. We would like to thank our contributors and sponsors for their continued support over the past year, and are looking forward to our continued partnership in 2020. Here is an update of our activities for the last quarter of the 2019:

**OCT 13-15:** CEO Albert Cheng represents SBMA at the LBMA Conference in Shenzhen.

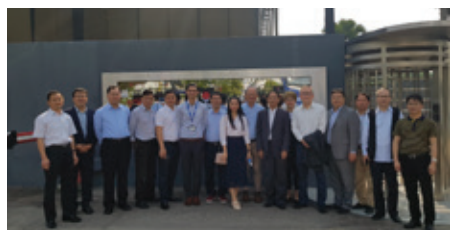


From left, CEO Albert Cheng; David Harquail, Chairman, World Gold Council; and Ruth Crowell, CEO, LBMA at the LBMA Gala Dinner in Shenzhen.



SBMA Chairman, Vice Chairman and CEO with other delegates at the JP Morgan lunch during LBMA's annual conference in Shenzhen, China.

**NOV 11-13:** With the support of SBMA and UOB China, a China Gold Association delegation visits Singapore and Indonesia as part of a One Belt One Road gold market study trip and seminar.



SBMA brought the China Gold Association delegation to visit Brink's storage facilities at Le Freeport, Singapore.



SBMA organised a meeting between the CGA delegation and Dr Tan Khue Giap, Co-Director of the Asia Competitive Institute (ACI), Lee Kuan Yew School of Public Policy, National University of Singapore.



SK Jewellery Group welcomes SBMA and the CGA delegation at its headquarters at Changi Business Park.

**NOV 14:** CEO Albert Cheng speaks about investing in gold from a Singapore perspective during a Bank of Thailand visit to Singapore arranged by DBS Bank and DBS Securities Thailand.

**NOV 26:** SBMA holds its Annual General Meeting (AGM) and welcomes a new management committee. See Page 15 for a summary of the event.



Chairman Martin Huxley addressing SBMA members at the Annual General Meeting.

**DEC 6:** CEO Albert Cheng speaks on camera to Chinese international English-language news channel CGTN for the feature "Tech-Savvy Singapore's Golden Future", published on 17 December.

## Exploratory Meetings

During the quarter, SBMA held meetings with the following companies on membership and matters related to market development: Bank of Thailand, China Gold Association, DBS Bank, Enterprise Singapore, ICBC Standard Bank, London Metal Exchange, Metals Focus, Metal Market Asia, Perspective Media Asia, Singapore Exchange, TOCOM, UOB China, World Gold Council.

## MEMBERSHIP

SBMA's total membership comprises 45 companies, including three Category 1 members, 31 Local Associate Corporate members, nine Foreign Associate Corporate members, and two Affiliate members.

## UPCOMING EVENTS

**13-14 January, 2020. Hong Kong Convention and Exhibition Centre, Hong Kong.**

### 13th Asian Financial Forum

The Asian Financial Forum (AFF) brings together some of the most influential leaders of the global financial and business community to discuss developments and trends in the dynamic markets of Asia. Please visit [www.asianfinancialforum.com](http://www.asianfinancialforum.com) for registration and event details.

**1-2 April, 2020. HKEX Connect Hall, Hong Kong.**

### 13th Annual Mines and Money Asia

Mines and Money Asia is Asia's largest mining investment forum. This year will see over 1,000 key global decision makers, mining executives, investors, commodity buyers and policy makers from over 40 countries converge in Hong Kong for two days of learning, deal making and unparalleled networking. Please visit <https://asia.minesandmoney.com> for registration and event details.

**7-9 June, 2020. Mandarin Orchard, Singapore.**

### Asia Pacific Precious Metals Conference 2020

The 4<sup>th</sup> Asia Pacific Precious Metals Conference (APPMC) is organised by the SBMA and supported by Enterprise Singapore which aims at developing and strengthening a unified body in the Asia Pacific for the bullion market. More information, updates and details of past conferences are available in the link: <http://www.asiapacificpmc.com>.

## About Crucible

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