LBMA WEBINARS

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LBMA Asia Update

Speakers:

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Summary:

Listen to our two local industry experts as they discuss recent changes in the Asian precious metals markets. From Hong Kong, Jeremy East (Senior Adviser, LBMA) will join Sunil Kashyap (Head of Asia, Scotiabank). Our speakers will evaluate COVID-19's short- and long-term effect on Indian, Chinese and Middle Eastern bullion markets before considering the key challenges that face the market and which forces are influencing participants.

Speaker 1:
Good afternoon. Welcome to today's LBMA webinar. We are delighted to welcome you to listen to Jeremy East and Sunil Kashyap as they provide you with LBMA's Asia Update. Jeremy is LBMA's Senior Advisor in Asia and he is also the Chief Executive of East Wind Capital, a Commodity Consultancy. Prior to this, he spent 11 years with Standard Chartered Bank in Hong Kong, serving as Managing Director and Global Head of Metals Trading and Commodities for greater China and North Asia. Also joining us today is Sunil, Managing Director, Head of Asia Commodities for the Bank of Nova Scotia in Hong Kong. With his 25-year career, he brings an in-depth understanding of both the key challenges faced and also the market forces influencing participants in the physical gold supply chain. So, with that, I shall hand over to Jeremy and Sunil. So, whenever you are ready gentlemen.

Speaker 2:
Good afternoon. Well, today we're celebrating an all-time high on the gold price. Sunil, a lot of things supporting the market. What do you think?

Speaker 3:
One thing that is not supporting is jewellery demand, but otherwise I think there is a huge momentum, and we can feel that even in Asia. Clearly, the really – growth in terms of investment demand is coming from the West and mostly North America, but even in Asia now, there's a little bit of a hysteria, sort of, building up with lots of discussions about – people think, should they get in at this level or not? And I think there's definitely a feeling that we have a real positive momentum on the gold price.

Speaker 2:
It just feels that, you know, the U.S. are printing dollars. These dollars have got to find a home. You know, by buying gold you're selling dollars/buying gold, so, there's money flooding into the markets.

And I even noticed that Bitcoin was over 11,000 recently, so with the buying in gold it, sort of, there's money going into other markets as well, right?

Speaker 3:
And it's sort of an overused term, but there's definitely a gold rush now. You know, there is more and more retail investors looking at it and saying, "This is the time to get in and of course, silver is going crazy also, so–

Speaker 2:
Yeah, it is funny, silver, you know – when was it – back in March? Silver almost halved. Or really, it fell something like 30% in a day and here we are, you know, everyone looks at the ratio – the gold/silver ratio – and now we are almost back or now silver's caught up.

Speaker 3:
Exactly, so it's definitely an interesting time to talk about gold. I think there's a lot of interest right now. Everyone wants to know what is happening, so it is a great time to have this discussion.

Speaker 2:
So, out in Asia, we are very much involved in the physical markets and over the past, sort of, 10 years, there's been a huge flow of gold really coming from the West to the East, and whether that is into China – and we've talked about that in detail in the past – or is there more traditional demand into India. Sunil, so, what's going on in India? You know, we can talk a little bit about China later, but – India. I think there is a lot going on in terms of the physical, the imports and–

Speaker 3:
Yeah, it's – firstly, as far as the United States, everyone probably knows the virus has really hit India hard. Most of India is still under lockdown, even in the biggest financial centre, Mumbai, the local transportation is at a standstill, so people can't get to work. Generally, the economy there has slowed down considerably, so what that has meant is jewellery demand is at a low level but just like everywhere else in the world, there is a lot of interest in investment demand and we are seeing that in terms of the ETF holdings going up. There's about 10 ETFs listed in the Bombay Stock Exchange and the holdings of those ETFs has been going up. And, also, just recently, a couple of weeks ago, there was an issue of a gold bond. You know, the government in India issued what is called a sovereign gold bond, which is issued in rupees, but repayable in gold terms and that issued seven-year bond, that issue had its 45th tranche last couple of weeks ago and that was a record tranche. They raised about four tonnes of gold in terms of deposits, seven-year deposits. And in India, the local rupee price of gold, which is denominated in rupees, for 10 grams has saved 50,000, so that's very important.

Speaker 2:
That's an all-time high.

Speaker 3:
That's an all-time high! So, everyone remembers last year it was 25,000 – now it is 50,000. So, there's a lot of interest in the metal, especially on the investment side. Jewellery demand remains very, very slow but the retail investment demand is really good.

Speaker 2:
So, if you look at India over the years, when people talk about India, there is something like 25,000 tonnes of gold in India. That's a huge uptick, you know, in terms of the value of that gold in terms of the economy but one of the problems I think India has is that gold – it does not return to the economy, so to speak. It's not monetized, so a lot of it is in people's houses, it's in vaults, it's in the temples. So, one of the reasons for that is perhaps that India doesn't actually have a government-organized market, right?

Speaker 3:
So, the government is aware of it. The amount of gold holding is something like two years GDP of that country, so it is an incredible number and so they're looking at different ways in which they can get the retail investor to bring out that gold. There is a couple of things that the government has implemented. One is there is something called a Gold Monetisation Scheme – a GMS. It's supposed to allow retail investors to bring their jewellery to a bank and convert the physical metal into a bank deposit – basically a gold deposit – and get interest of around 2% for that. So, that's something that has been launched, but really has not been successful. The sovereign bonds on the other hand, like I said, been raised successful. They give it two and a half percent return for seven-year bond, Tax-Free and again, linked to the gold price. The second step that the government has taken is to implement what's called a Gold Spot Exchange.

Speaker 2:
Right.

Speaker 3:
So, they're encouraging existing exchanges to offer a gold spot venue, where customers can buy and sell gold on a spot basis and that's intended to allow for people to get comfortable with the financial aspects of gold. And there are a couple of exchanges which are looking at this now and there have been very detailed discussions about putting in place implementation plans and probably looking at having the exchange ready by the end of this year.

Speaker 2:
Well, I mean, I think if you see what happened in China and the Shanghai Gold Exchange and the success that came through that exchange. I think you look at India – compared to where China was at that time – India has a lot of the infrastructure already there. It already has vaults all over the country, it's very familiar with holding gold, so it's got that sort of distribution network, whereas back in the early 2000's, when China launched the Shanghai Gold Exchange, the distribution of gold wasn't there. It was probably only 10 years later when the market really took off, but India's already got that. Another question really related to the gold bonds. Do you see that as being kind of a change, a fundamental change to the way the Indians buy gold, less physical more paper?

Speaker 3:
Yeah, I think it's a very interesting subject. I think it's a beginning; it is a first step towards it. What I hear mostly is the demand really hasn't come from people who are replacing gold jewellery demand with this paper. But I think, it's actually just putting the seed in to the retail investor's mind-set, there is an option available to have the upside of gold without actually buying the physical.

Speaker 2:
Yeah.

Speaker 3:
This is just the beginning, but I think that, you know, it will take years, if not decades, to change the mental mind-set of the Indian investor who has been doing physical buying for the last 2000 years or so.

Speaker 2:
The idea of the spot exchange, if you look at all the other exchanges around the world, it seems to be that the spot exchanges or the spot markets have performed pretty well.

Speaker 3:
They have, I mean, what's happening in Shanghai? I mean Shanghai Gold Exchange; one is going at a discount. What's the situation right now?

Speaker 2:
In China, you are seeing that the market is a little bit like India, people have been sort of selling their gold and there's not so much retail demand. In China, the gold can't be exported, so therefore it's there. It needs to be consumed by the local market. Whereas obviously gold in Hong Kong and Singapore – it's freely transferable around the world, so that gold can move from an area of a discount – but perhaps in Hong Kong where it's one or two dollar discount – to a premium which might be in New York or against London. So the adjustment of the market is much slower because it has to be, sort of, naturally consumed in the China market.

Speaker 3:
In the past, maybe some of that metal used to come to Hong Kong and then find its way back to Zurich and London but probably that stuff's happening right now.

Speaker 2:
I think now, especially with the, sort of, after the virus and the Trump logistical difficulties, and crossing borders, and lockdowns, I think the movement of gold – hand-carried gold – has been severely restricted.

Speaker 3:
Yeah and we've seen that in India too.

Speaker 2:
Yeah?

Speaker 3:
So, what we are seeing is, in fact, gold imports have just resumed like two or three weeks ago because traditionally, you know, the demand has picked up – like I said, in terms of investment demand – and traditionally that demand would have been met maybe by import of doré or maybe hand-carried gold coming across the borders and because of logistical difficulties, because of the local refiners being unable to refine. You have a situation where the demand has meant that banks have started importing again, which is good in a way.

Speaker 2:
So, we're kind of seeing the, sort of, the retail/jewellery market being very soft, selling interest there but even out here – so, there is buying in investments on the investment side – so, it's not maybe not purely a western demand story.

Speaker 3:
Absolutely.

Speaker 2:
But we are actually seeing that in India and also in China, people investing in the gold ETFs. So, again, there is investment demand out in the East; it's just not on the same scale that we're seeing in the West.

Speaker 3:
And do you see – what about silver? I noticed that CME have recently included a lot of silver refiners in their Good Delivery list. Do you think there's likelihood that silver will come out of China?

Speaker 2:
Well, I think it is a very interesting topic. I understand the Shanghai Gold Exchange – the International Board – are looking at launching a new silver contract. And, from the LBMA, I can say that we've seen a number of Chinese refiners getting good delivery status for silver, and I believe there are more coming through in the pipeline. So, I think that means that they're trying to

encourage basically a silver market in Asia. You know, a formal silver market in Asia for physical silver – something which doesn't really exist at the moment because, if you're a silver producer in Australia or you're an exporter from China, that Silver really trades at a differential to London. And there's no, kind of, local market for it to trade on. Ultimately, a lot of that silver will find its way to India, but there's no, kind of, local market in Asia for physical silver and, I think, we'll see more and more interest from the regional producers to get good delivery and have their silver traded on the Shanghai Exchange.

Speaker 3:
Okay, interesting. Talking about the Shanghai Exchange, I know that there was a very big default in China with big jewellery manufacturers in China – NASDAQ listed. Maybe you can shed some light?

Speaker 2:
I don't have any kind of insight.

Speaker 3:
The impact of that?

Speaker 2:
I think – with all these – there's a relationship between the price of underlying commodities, and the numbers of stories and frauds that come out in them and they tend to move together. The higher the price, the more you read about them. You know, just from my take on what I understand is that, I think, I'm absolutely shocked in terms of the size.

Speaker 3:
80 tonnes?

Speaker 2:
It is something like 80 tonnes of gold, apparently, and I know how well-controlled the vaults are in there Shanghai Gold Exchange, and there's absolutely no question regarding the exchange, and so this is something that's outside of that. And, obviously, the question there is related to if someone was laying the financing against a gold inventory – a physical inventory – and it appears that that was happening. But the implications of that are actually quite severe and in terms of, you know, I don't believe that this has anything to do with outside of China. It was a purely a kind of a China story that we're seeing, but the risk departments in the banks would all be taking notice – regarding ensuring collateral is there, it's correct, it's in their control – so, it really kind of tightens the risk, you know, from the banks and also makes it a little bit more difficult. And, potentially, the market for financing gold will shrink.

Speaker 3:
But, hopefully, to get more organized in the future, some of the aspects we've seen – some of the mistakes we've seen – in some of the local banks wouldn't get repeated.

Speaker 2:
Well I think it gives an opportunity to new entrants potentially. With the right formula – with the right, you know, arrangements – in terms of vaulting, validation of, you know, the inventory, then it kind of all formalized the process and very well tightly controlled by, you know, by experienced market professionals, et cetera, et cetera. I think that then we can see an opportunity because from where I sit is 10/20 years ago, all the banks used to do this.

Speaker 3:
Right.

Speaker 2:
They'd all be financing on behalf of their clients and, today, fewer and fewer banks are in this space, but I think there is a big demand for it. You know, investors typically like to be liquid, so although they're investing in gold, they'd rather like to use that gold and then...

Speaker 3:
Get leverage.

Speaker 2:
Go to, yeah, to get leverage and of course you don't leverage on COMEX with, you know, with 5%, but they'd like to do the same in London with physical – potentially with ETF – so, I can see, you know, a big interest and that interest is increasing as the price goes up and we see more investors.

Speaker 3:
Tayler, any questions for us?

Speaker 1:
Yes, there is something that, I would like to know, and it is probably something that's more for you, Jeremy, as it is about Hong Kong. So, what exactly has been the physical demand impact of having no tourists and new security laws in Hong Kong? How is this, you know, affecting them now? How will this affect the gold market in the near-, medium- and long-term?

Speaker 2:
Well, I think, in terms of, sort of, the retail market, I think it has been suffering. I think we're not seeing, you know, we used to see thousands of – tens of thousands of – Chinese tourists coming to Hong Kong. These huge jewellery stores that are in Kowloon and Times Square – today, they're very empty. There's not really much going on over there. In terms of the security though, I don't see that having any impact on the gold market and, in fact, up until quite recently – I don't know about you Sunil – but I think that the economy in Hong Kong has really been the busiest I've seen it for a long time. So, just here we are sitting in central Hong Kong, you know, the buses are packed, the streets are full of people so it's, you know – the economy's coming back, I think. However, it's potentially quite fragile. And we've recently seen a little bit of a resurgence in the virus but, I think, there are some other changes, which are going to be coming along, which will actually, sort of, encourage Hong Kong in terms of its position as a financial centre. There was a recent announcement by Carrie Lam regarding this kind of a "cross border wealth management" – kind of a wealth management connect between Hong Kong and I think 11 of the largest cities in Southern China – where potentially we can see, in the coming years, huge flows of money coming into Hong Kong, in the wealth management space. And I think that is going to be potentially quite important for Hong Kong, especially in the gold market because Hong Kong, in the past has been very much a physical market conduit into China. It was more Singapore that was the wealth management side. So, I think, we are going to see in the next five years a big change in Hong Kong. Money coming in wealth management, and of course Hong Kong is a big gold centre, so, I think, we're going to see a lot more interest in gold.

Speaker 3:
I think you're right. I mean, you know, it is very clear both from Beijing as well as from Hong Kong, that there's strong interest in creating a more strong connection between the mainland and Hong Kong on Capital Market side. The word 'connect' that Jeremy's used – just for the sake of the listeners – is used across the board in terms of bond connect, equity connect, you know, now we're talking about the gold connect. So, this, sort of, concept of trying to connect the mainland with all of its capital controls, with Hong Kong – where there's no capital controls – and trying to create a solution to allow foreign investment to come into Hong Kong and then through Hong Kong into China, and allowing mainland money to come out into Hong Kong and then go out for investment, that concept is very strongly embedded now and I think with the current changes, Beijing will make it a point to even more strongly try to push towards reforms along the way.

Speaker 2:
And of course, you know, we see in the local market, sort of, these huge IPOs are going on, you know, the listings and attracting more and more capital into the Hong Kong market and, you know, and I'm sure the Hong Kong Exchange is looking at new opportunities and new potentials in, you know, potentially precious metals as well.

Speaker 3:
Absolutely, the Hong Kong Exchange's market cap is now seventy-two billion dollars. It's the most highly capitalized exchange in the world, and so they have a lot of muscle and they have the ability to spend money and structure any kind of parts they wish.

Speaker 2:
No, I think it is all – so, going forward, I think it's, the future is actually pretty bright in Hong Kong, you know, especially with the, you know, the impact of flows coming in from China in terms of, sort of, capital markets and wealth management.

Speaker 1:
Good. Well, that is certainly good to hear on both counts. So, thank you very much Jeremy and Sunil for your time and for, kind of, giving us an update on what's going on across Asia, because I certainly did not have all of this information at the beginning, so it's good to find out all of it. So, once again, thank you and – to all our listeners – this is the last webinar for the summer. I couldn't have thought of two more wonderful guests to feature on our final webinar. We are having a short break. LBMA will be returning in September. We've been planning the schedule over the past few weeks, and we do have some incredible speakers and topics headed your way. You can still email any questions or ideas about this webinar or about anything you'd like to see perhaps in the next upcoming webinars, through to ask@lbma.org.uk. We look forward to hearing from you and to welcoming you back in Autumn. So, on behalf of everyone at LBMA, we hope you stay safe, healthy, and have a lovely August. So, thank you and thank you Jeremy and Sunil.

Speaker 3:
Thank you very much.

Speaker 1:
Thank you.

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