

Globalisation and the Gold Market: The Growing Interconnectivity of Trade and Trading

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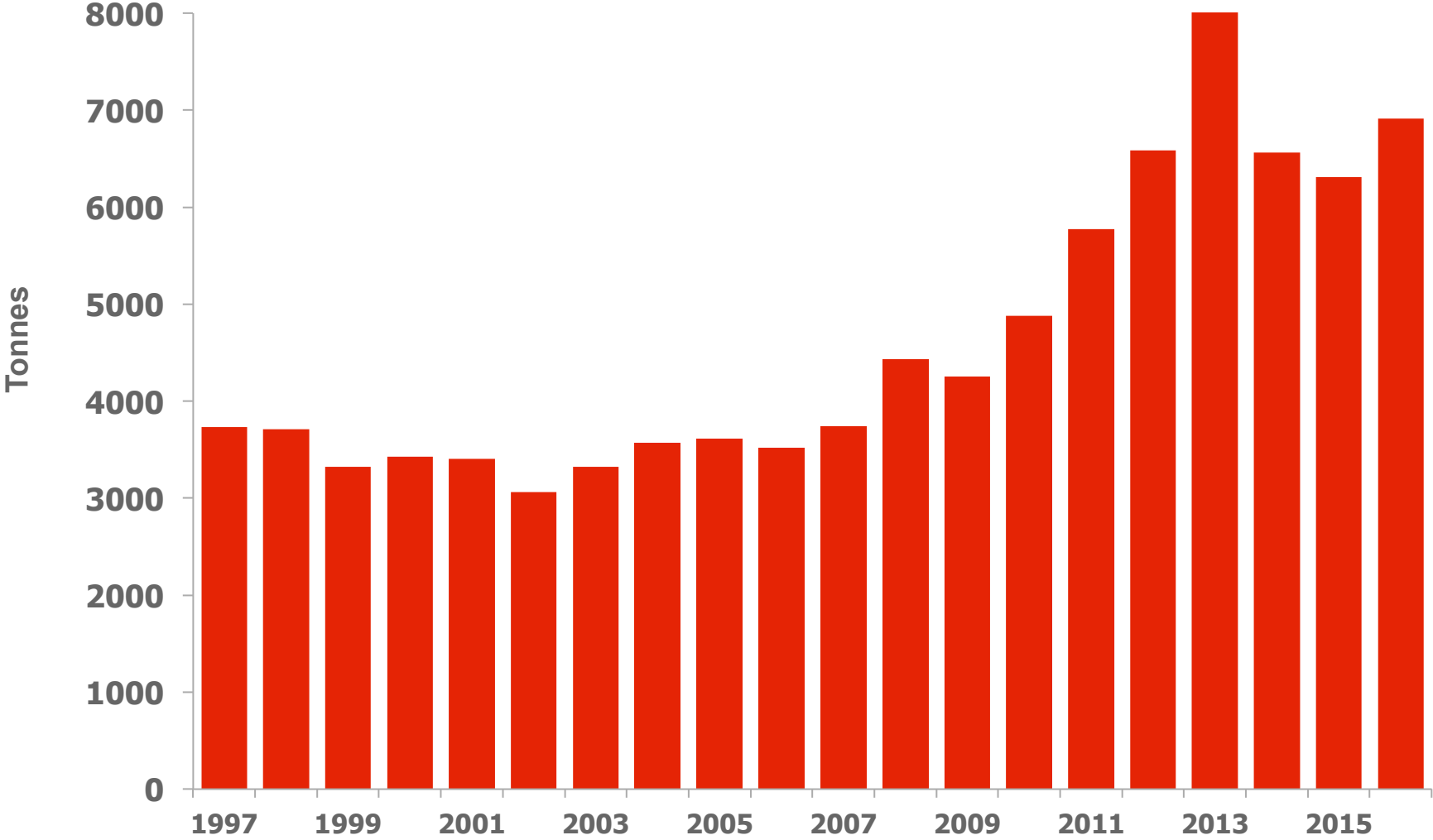
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Globalisation and the Gold Market: The Growing Interconnectivity of Trade and Trading

- Gold market has for well over a century been truly 'Global':
- Gold production in S Africa & Americas; finance for mining companies; refining & trading; central banks and Gold Standard; pivotal role for London market
- Globalisation stalled post-WW1, resumed post-WW2 but constrained by: politics, regulation, technological limitations
- Faster pace of Globalisation in the 'internet age' due to economic liberalisation, rapid growth in emerging markets, financial innovation, new technology

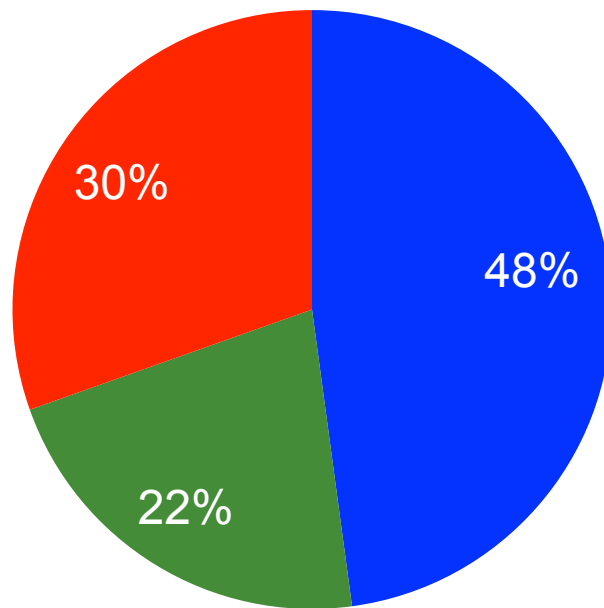
Global gold bullion exports have increased substantially over the last decade



Source: GTIS; Precious Metals Insights

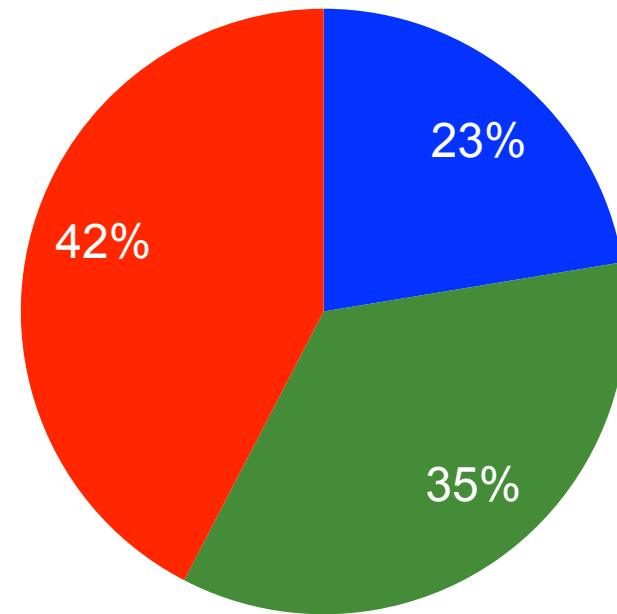
Fabrication demand in 1989 and 2016 roughly equal but its regional distribution has changed markedly

1989



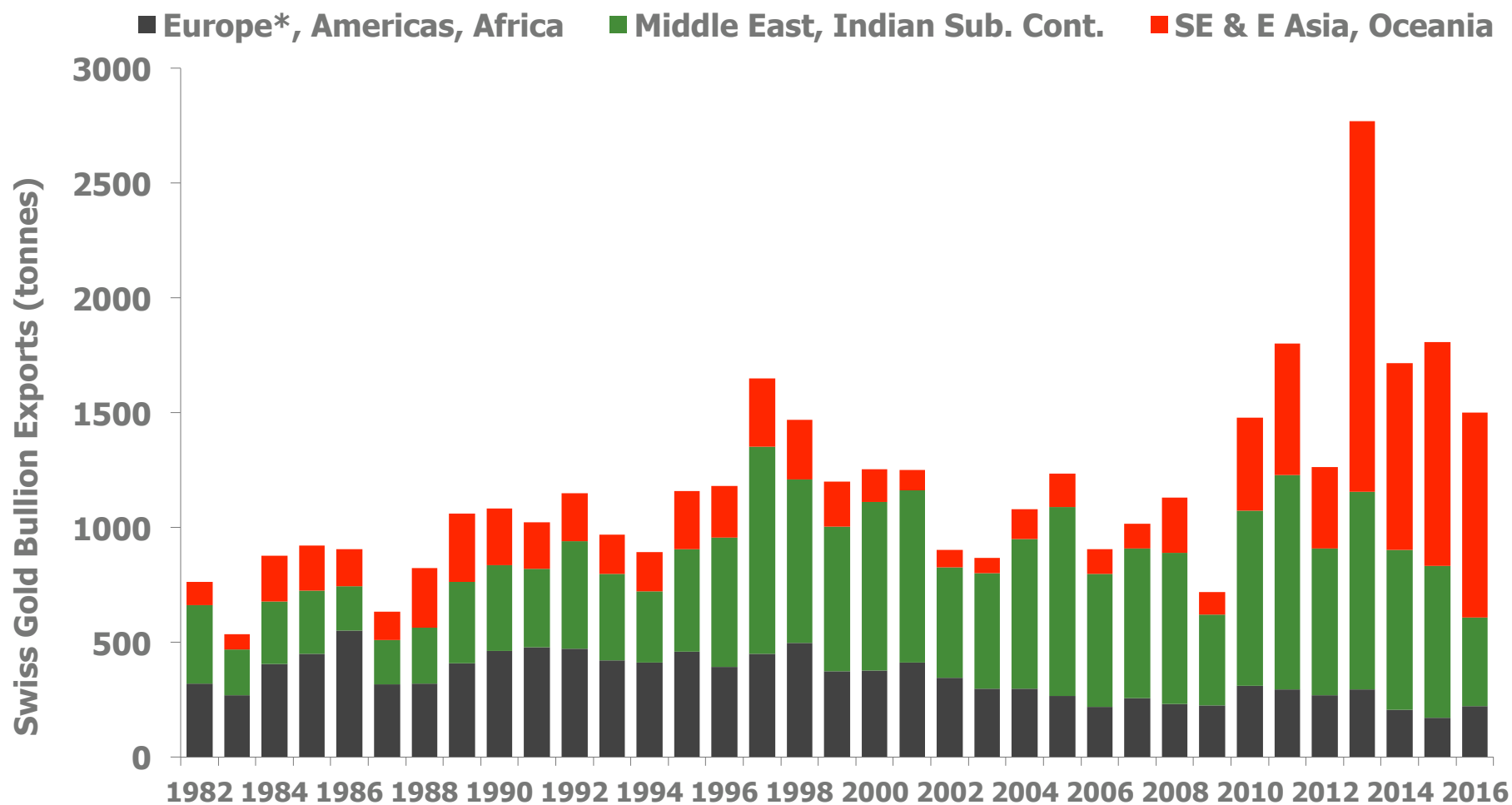
- Europe (inc USSR), Americas, Africa
- Middle East, Indian Sub-Continent
- SE & E Asia (inc China), Oceania

2016



- Europe (inc Russia), Americas, Africa
- Middle East, Indian Sub-Continent
- SE & E Asia (inc China), Oceania

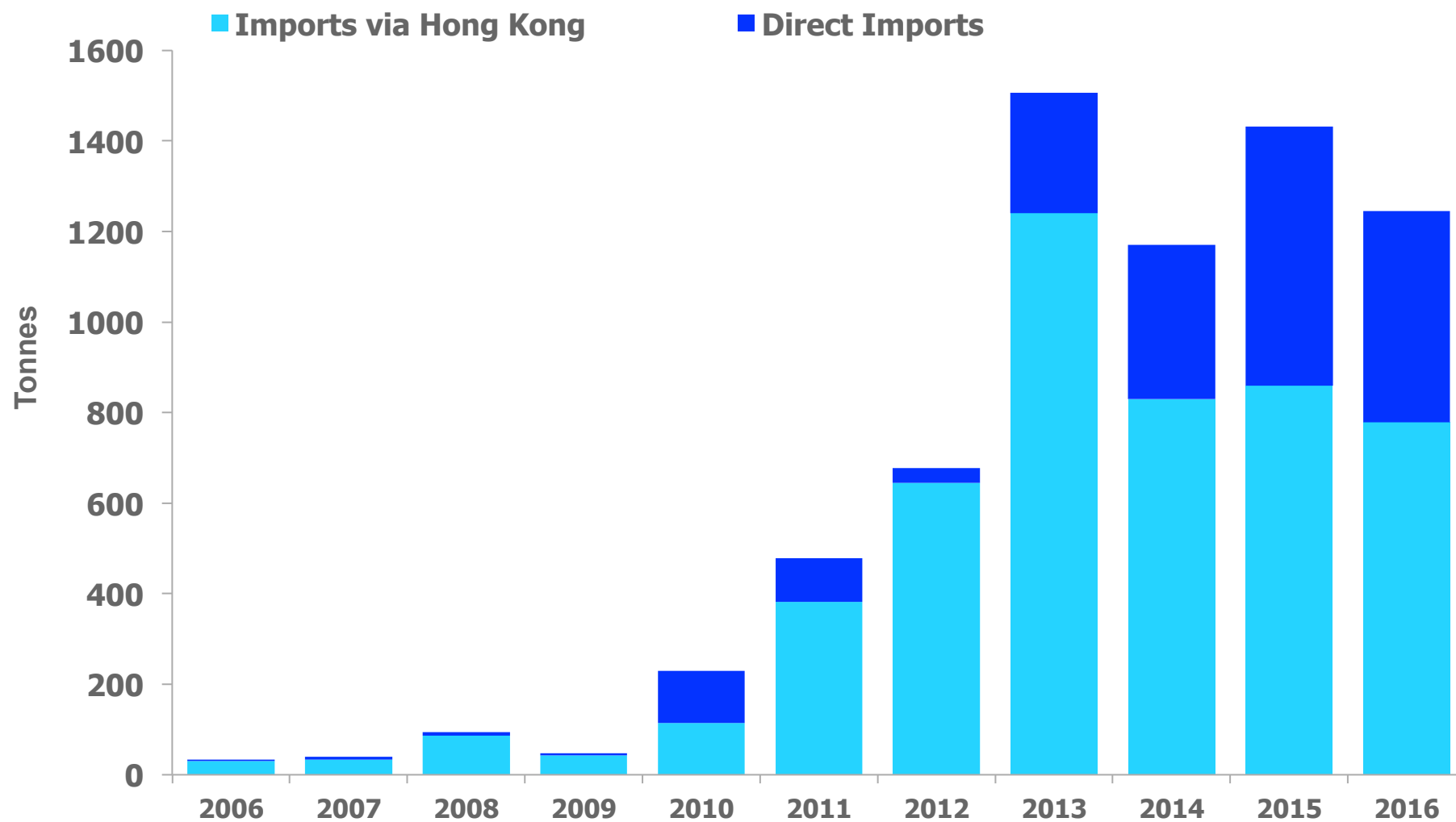
East Asia has been the main destination for the higher level of Swiss gold bullion exports in recent years



*Europe excluding UK

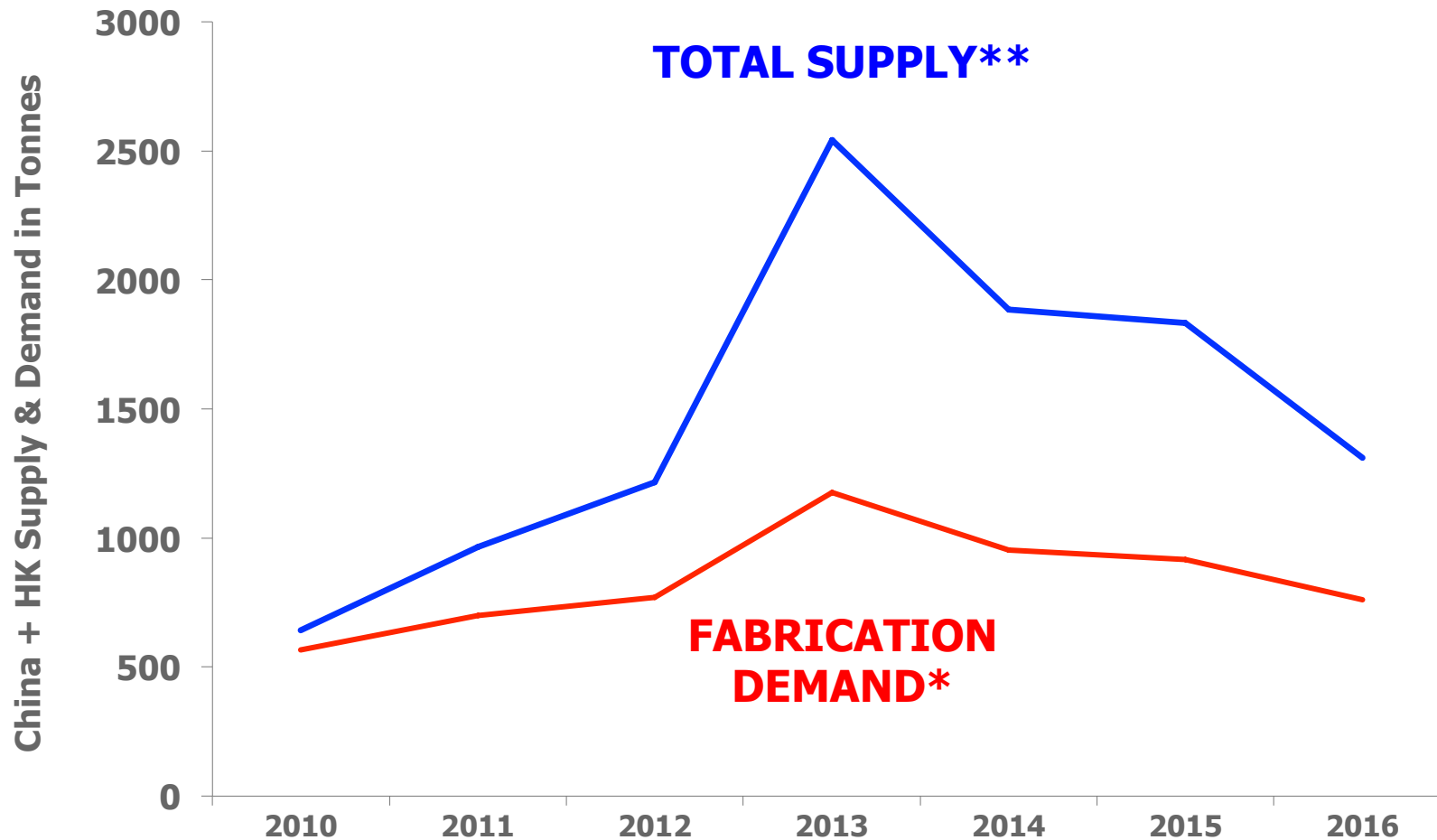
Source: GTIS; Precious Metals Insights

China's gold bullion imports have exploded, much of them now going directly to the mainland instead of via Hong Kong



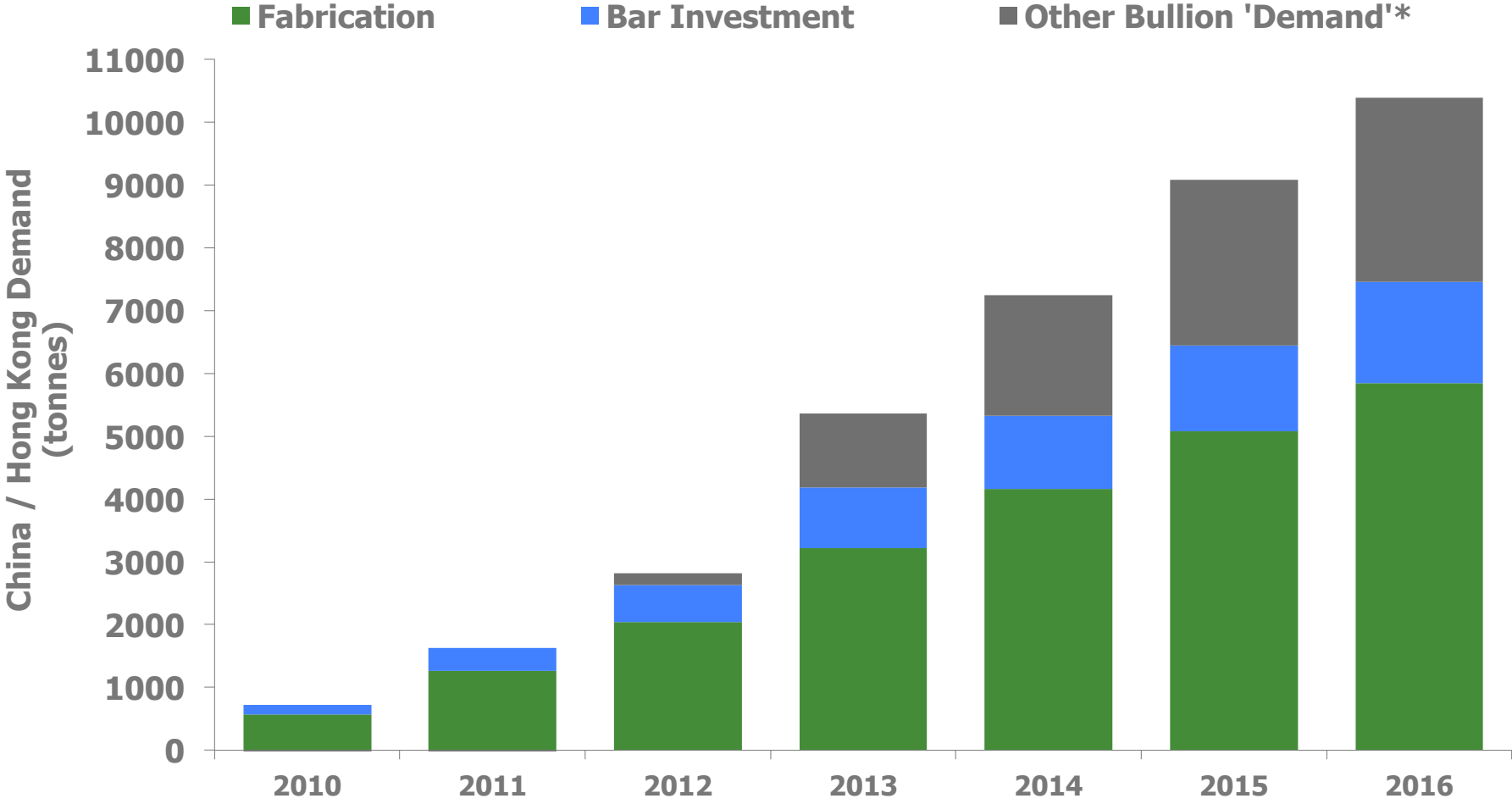
Source: GTIS; Metals Focus; Precious Metals Insights

In recent years there has been a substantial apparent supply 'surplus' in the China / Hong Kong market



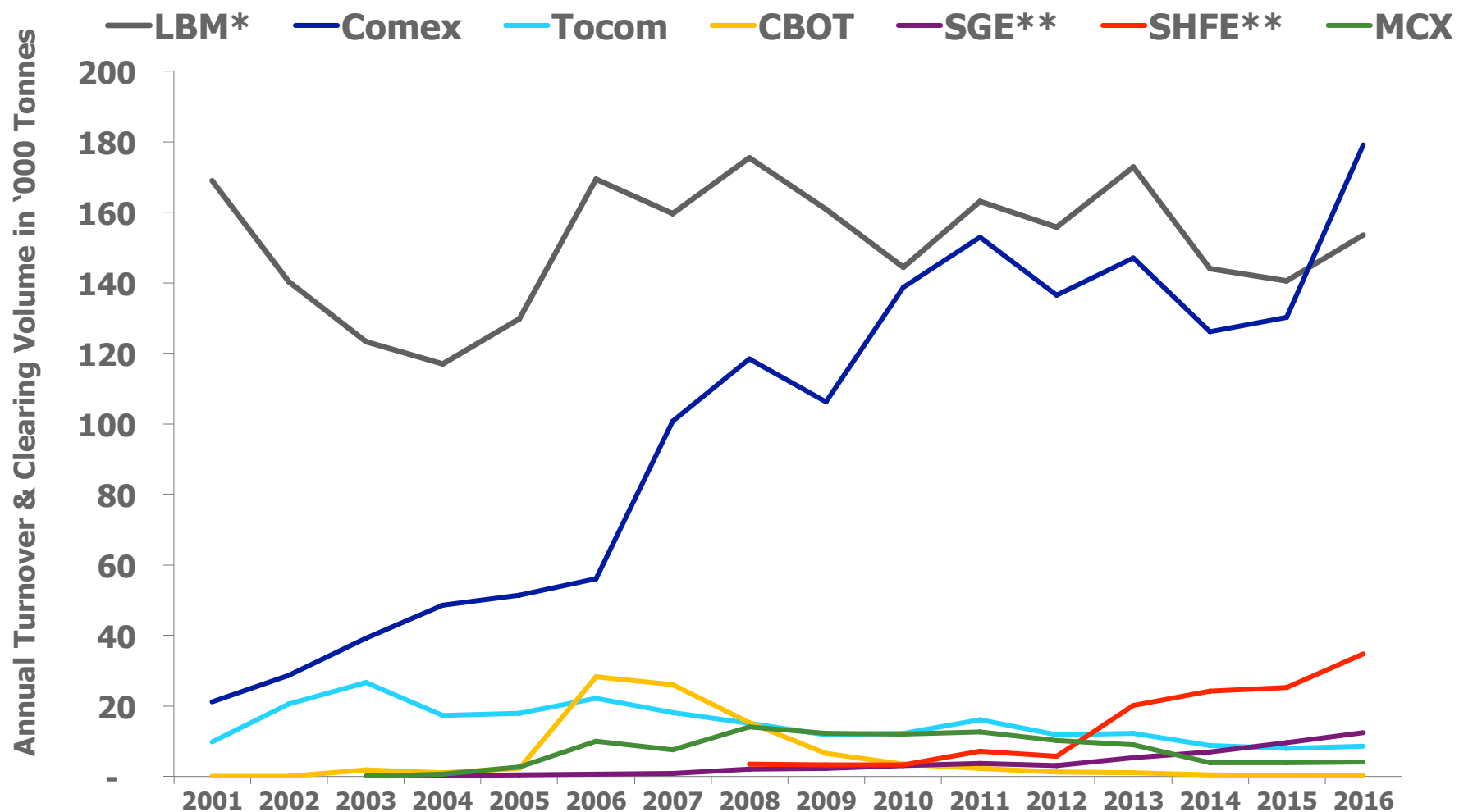
*Fabrication Demand (jewellery + industrial + coins); **Total Supply (mine production + scrap recycling + net imports to China/HK)
Source: Metals Focus; Precious Metals Insights

Cumulative China / Hong Kong gold 'demand' since 2010 has amounted to over 10,000 tonnes



*Other Bullion 'Demand' is a net figure for mainland China plus Hong Kong
Source: GTIS; Metals Focus; Precious Metals Insights

Turnover has risen on Shanghai's exchanges but it still lags New York and London markets by a considerable margin



*London Bullion Market Clearing Transfers Volume annualised; **SGE & SHFE figures divided by two for comparison with others
Source: LBMA; Exchanges listed above

Proposed gold trading initiatives would promote further interconnectivity in the global gold market

- LBMA's OTC trade repository and pricing project
- LME spot and futures trading; centralised clearing venture
- HKEX's CNH and USD gold futures contracts
- CGSE's Qianhai / Hong Kong corridor
- SGE partnership with DGCX to trade Shanghai gold futures
- SGX's Shariah compliant futures contract
- Planned gold futures contract on the ASX

Globalisation and the Gold Market: Conclusions

- Gold market globalisation is well advanced in terms of trade links, although there are still important exceptions, e.g. (near) prohibition on gold exports from China
- While Switzerland/UK are still pivotal, other physical entrepôts have become increasingly important and intra-regional trade, especially within Asia, is growing
- Domestic gold trading has become liberalised in most countries but currency and capital controls still hinder cross border activity in several cases
- Scope for arbitrage exists where partial gold market liberalisation creates opportunities based on local / international price or regulatory differences
- China's market development a key factor for future trends in globalisation; much depends on the Chinese leadership's appetite for further capital account liberalisation and the associated scope for internationalisation of the RMB
- London will remain the dominant OTC trading hub and Comex the principal gold futures market for the foreseeable future but their market shares will be eroded to the benefit of competitors in Asia, especially Chinese exchanges

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