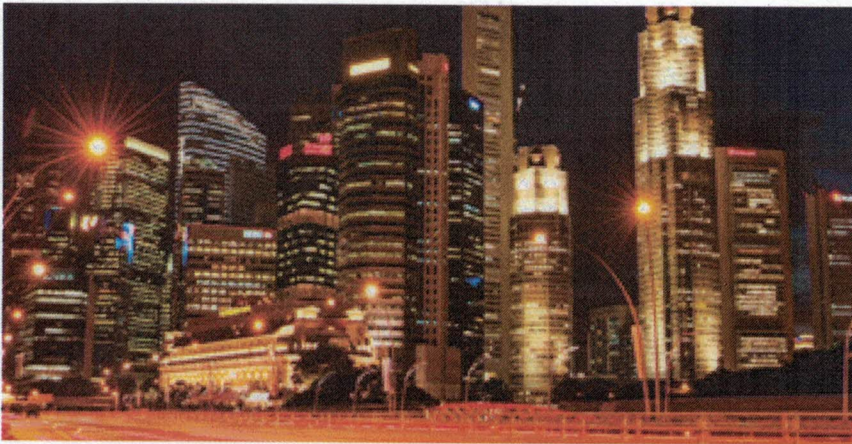


# The Singapore Bullion Market

By Sunil Kashyap, Chairman, and Albert Cheng, CEO, of the Singapore Bullion Market Association (SBMA)



**This year, the annual LBMA/LPPM precious metals conference will be held in association with the Singapore Bullion Market Association (SBMA). In this feature, Sunil and Albert chart the growth of the bullion market in Singapore and the role the SBMA has played in helping to shape it.**

## Rising Global Demand and Singapore's role

Asia is the driver of the rising demand for gold, and Singapore is located at the heart of this trade flow. Global investment in gold has more than doubled since 2009 to 1,377 tonnes in 2013, with East Asia and the Indian subcontinent accounting for more than 70% of global physical bar investment. In addition, about 50% of the world's scrap gold comes from Asia (source: Thomson Reuters).

The physical allocation of gold in the portfolios of wealthy investors has been growing, and Singapore has the largest pool of private banking assets in Asia, with \$470bn in 2015 (source: Deloitte). Private and institutional investors are also demanding that their physical assets be stored in a neutral and alternate location, and Singapore is well-placed to accommodate this demand. Singapore's innate attributes of neutrality, economic and political stability, excellent connectivity and reputation as an important centre of finance have long appealed to global traders in precious metals. In addition, it has a strong, efficient and transparent legal and judicial framework.

## Domestic Growth

To capitalise on the growing global demand and to leverage Singapore's strengths, International Enterprise (IE) Singapore, the Singapore government's trade promotion agency, began consulting the bullion industry in 2012 about making the country a hub for bullion activities in Asia. The initiative would build up Singapore's bullion refining, trading, clearing, storage and logistics capabilities for it

to service nearby countries, which includes two key demand centres, China and India, as well as the rest of ASEAN.

The SBMA regularly offered market knowledge and advice to IE Singapore in developing Singapore's bullion strategy, and later the Inland Revenue Authority of Singapore (IRAS) and Singapore Customs during implementation. Three strategies were identified and executed in order to create a more conducive business environment to nurture this concept, namely,

- Goods & Services Tax (GST) exemption on investment grade precious metals – gold, silver and platinum, effective from 1 October, 2012.
- Anchoring a first-class globally accredited gold refinery – Metalor Singapore began operations on June 26, 2014.
- Create a trading marketplace that includes price discovery, physical settlement and storage. The SGX Kilo Gold Physical Contract and ICE Kilo Gold Futures were launched in 2014 and 2015 respectively.

Recognising that investment grade precious metals (IPM) are essentially financial assets just like other actively traded financial instruments like stocks and bonds, and to facilitate the development of IPM refining and trading in Singapore, the government announced in early 2012 that GST would be exempted from October 1, 2012.

Storage facilities for precious metals grew, with Brinks beginning operations at its vault at Singapore Freeport on June 26, 2014. Subsequently, storage facilities by bullion

banks and secured logistic companies also expanded, and the infrastructure for the precious metals sector in Singapore began to take shape.

At the 2014 London Bullion Market Association (LBMA) Bullion Market Forum, the Singapore Trade and Industry Minister Lim Hng Kiang announced the Singapore Kilobar Gold Contract, the first wholesale 25 kilobar gold contract to be offered globally. A joint initiative of IE Singapore, the World Gold Council, the Singapore Exchange and the SBMA, the contract introduced centralised trading and clearing of a physically-delivered gold contract in Singapore. It comprises a series of six daily contracts, which gives buyers physical access to competitively-priced kilobars. This was enhanced by the launch of the ICE One-Kilo Gold Futures on Nov 17, 2015.

## The Singapore Market

### History

Since the 1960s, Singapore has been a gold distribution centre for Southeast Asia, with its gold largely sourced from London and Zurich. In 1969, in the wake of a global evolution of the free gold market and a two-tier price structure following the collapse of the London Gold Pool, Singapore established an over-the-counter (OTC) gold market. However, from 1969 onwards, only non-residents could perform gold transactions in Singapore, and banks and bullion dealers trading gold required authorisation from the Singapore Government. Beginning in 1973, Singapore residents were finally allowed to trade gold, and the gold dealer licensing requirements were abolished.

In November 1978, a group of Singaporean bullion dealing banks and brokers formed the Gold Exchange of Singapore (GES). Founder member banks included United Overseas Bank (UOB), N.M. Rothschild and Overseas Chinese Banking Corporation (OCBC). The GES listed two physically deliverable gold futures contracts, a 100oz and a 1kg. The GES also established its own clearing house, the Singapore Gold Clearing House, whose clearing members were OCBC, UOB, Overseas Union Bank (OUB), DBS Bank and the Bank of Nova Scotia. The GES gold contracts saw strong initial interest but trading volumes had tailed off by 1983.

In late 1983, GES was integrated into a new financial futures market – the Singapore International Monetary Exchange (SIMEX), a collaboration between GES and the International Monetary Market (IMM), a division of the Chicago Mercantile Exchange (CME).



In 1984, SIMEX launched a cash-settled 100oz gold futures contract, based on loco London prices. However, this contract also saw a gradual demise in demand and ceased activity by 1996, which led to it being phased out in 1997. SIMEX then merged with the Stock Exchange of Singapore in 1999 to form the current multi-asset Singapore Exchange (SGX).

Singapore's role as a redistribution centre for the region reached record levels in 1992, when gold imports reached a total of 414 tonnes (almost half of Asia's total consumption). Since then, imports have declined as a result of market liberalisation measures adopted by some of its immediate neighbours.

Consumption by domestic jewellers had, for many years, hovered around 18-22 tonnes at saturation level. The introduction of a 3% GST in 1994 softened the demand for gold products. In 2003, GST was increased to 4% and then to 5% in 2004. In 2007, it was increased further to the current level of 7%.

### Characteristics

- The Singapore market is evenly split between gift giving and self-adornment, with 22 ct as the dominant caratage. Among consumers aged 25 to 35 years, who have a strong preference for more contemporary designs, 18 ct gold jewellery has been growing in demand. However, there has been a recent resurgence of interest in 24-carat pure gold due to marketing and a surge in gold prices.
- Over 50% of gold products are bought from traditional goldsmiths, but the retail jewellery trade is very conservative and fragmented, dominated by a number of chain stores. In the last 20 years, manufacturers have been relocating their factories from Singapore to Malaysia or China to take advantage of lower production costs. Currently, more than 95% of products in the market are imported, mostly from China, Malaysia and Indonesia.
- Investment-grade bars and coins are exempt from GST, while jewellery is subject to 7% GST on both local and imported products.
- Design is the key factor among buyers under 34 years old, while price is of greater importance to older buyers.
- The peak period of demand for gold each year is between December and March. Sales tend to peak during the Chinese wedding season and during celebrations like Christmas and Valentine's Day.
- Many traditional and family-run goldsmiths have closed down over the past 20 years, giving way to major retailers like Lee Hwa/Aspial Group, Soo Kee Group, Poh Heng and others, who have a combined total of more than 100 outlets located at high-traffic locations and major shopping malls.

### Role of the SBMA

The SBMA was formed in 1993 with an original membership base of 16 companies from the gold industry. With fears that the GST scheme to be introduced on April 1, 1994 would kill the physical bullion business and the country's role as a physical hub for bullion in ASEAN immediately, JP Morgan's head of bullion, Mr. Tim Gardiner and World Gold Council regional CEO Mr Kerr Cruikshank felt it was necessary for a single voice to represent the bullion market. The SBMA was successful in getting the Singapore government to lift the GST for re-exported gold bars.



*The SBMA Management Team, with Sunil and Albert featured in the centre of the front row*

The association was relatively inactive in the late 1990s due to the departure of key personnel within the gold industry and the closure of gold desks in some of the bullion houses and banks. However, there has been an increase in the number of bullion market initiatives and activities since the 2006 financial crisis, with many players that exited the market prior to 2006 becoming active again.

Until 2012, the SBMA remained an informal association and only met occasionally for business networking, but with the Singapore government aiming to establish Singapore as a gold hub, the SBMA began developing its competencies to become the central body for the bullion industry. It formally adopted this role in early 2015, under the leadership of Mr Ng Cheng Thye. At its annual general meeting in 2015, a revised constitution was passed to incorporate a three-tier governance structure, with the Management Committee as the core of the Association, guided by an Advisory Board and supported by a Secretariat under the leadership of a CEO and his team.

Today, the SBMA is now looking to develop Singapore as the ASEAN hub for global players in the physical bullion market. This includes providing vaulting/storage facilities as well as developing a clearing mechanism for gold kilobars and harmonising procedures and industry standards specific to the Singapore and ASEAN market, such as the SBMA Good Delivery List, the Singapore Kilobar Gold Contract and ICE Kilo Gold Futures.

The SBMA also hopes to create a more harmonised tax regime, regulatory infrastructure and industry standards among ASEAN jurisdictions, including legal

documents, testing, assaying and operating procedures. The SBMA wants to look beyond the immediate horizon to further develop the Singapore and ASEAN gold markets through advocacy and research activities.

### About the SBMA

The SBMA is a non-profit organisation currently representing 35 key stakeholders from the precious metals industry in Singapore and beyond, including bullion banks, exchanges, refineries, bullion merchants and secured logistics support companies. Its mission is to develop the bullion market in Asia, including setting standards, drafting promotion, developing best trade practices and documentation, driving thought leadership and enhancing the professionalism of the industry.

The SBMA plays a pivotal role in market development in Singapore and beyond, connecting regulatory bodies and industry players, as well as promoting the Asian bullion market internationally. Its international partners include the LBMA, with whom it partners on various initiatives, including this year's annual LBMA/LPPM conference. The SBMA aims to have widespread representation in ASEAN and beyond, and is actively recruiting members. We welcome your participation, opinions and enquiries. Please contact CEO Albert Cheng at [albert.cheng@sbma.org.sg](mailto:albert.cheng@sbma.org.sg) or Executive Director Hawk Namiki at [hawk.namiki@sbma.org.sg](mailto:hawk.namiki@sbma.org.sg) for more information.



**Albert L. H. Cheng,**  
CEO of the SBMA and  
Advisor to the World Gold  
Council (WGC). Albert retired  
from the WGC at the end of  
March 2015 after many years

of service, but was then appointed as an Advisor to the WGC with effect from April 1, 2015. He has been an Advisor to the International Advisors Committee of the Shanghai Gold Exchange (SGE) since its inception in 2002. In November, 2015 he was also appointed as the honorary CEO of the SBMA.



**Sunil Kashyap is the**  
Managing Director, Head of  
Asia, ScotiaMocatta, Asia  
and Chairman of the SBMA.

He joined Mocatta Bullion in 1996 which was then taken over by The Bank of Nova Scotia in 1997. He is primarily responsible for managing The Bank of Nova Scotia's metals business in Asia covering operations in Hong Kong, Singapore, China, India and Dubai. He is a member of the International Advisor's Committee of the SGE and was a member of the inaugural Gold Committee of the Dubai Metals and Commodity Exchange. He holds a Master's degree in Business Administration from Cornell University, Ithaca, New York and is an engineering graduate from IIT, New Delhi.