

Malaysia's Gold Market

Introduction

Like many other Asians, Malaysians are familiar with using gold as a store of wealth, as a currency hedge, or for gifts for cultural or religious ceremonies such as weddings, festivals and other special occasions. Additionally, dinar coins are well-received by Malaysians as a form savings and are even used as a medium of exchange.

There are many products in Malaysia for those who want to purchase gold, which come in the form of jewellery, gold bars, gold coins, gold investment accounts or accumulation programmes.

According to Malaysian newspaper The Star, domestic production comes from 14 mines in Pahang, Kelantan and Terengganu and as of 2015, Pahang alone accounted for 74% of the country's output. Gold output reached its highest of 4.739 tonnes in 2003 before declining to 2.794 tonnes in 2009 and bouncing back to 4.732 tonnes in 2015.

Jewellery Fabrication and Demand

A popular type of gold purchase in Malaysia is jewellery at 91.6% purity or 22K gold. Most gold shops sell and purchase this type of gold jewellery. The goods are sold based on their weight, design and workmanship. Retailers charge based on market price and for labour.

According to Metal Focus, Malaysian gold jewellery fabrication was 43 tonnes in 2016. Within the same report, supplies in Malaysia are mine production 3 tonnes and 19 tonnes of gold recycling in 2016. To compensate for the lack of domestic supplies, bulk of gold is imported from Switzerland, UAE, Singapore, Turkey, Hong Kong, the United States or Thailand.

Gold Products

Gold bars with a purity of 99.99% or 24K in a range of weights from 1g, 5g, 10g, 20g, 50g to 100g are available at Malaysian jewellery shops, post offices and banks.

MKS, a Swiss-based gold trading company that owns the PAMP precious metals refinery, has a Malaysian branch, MKS Precious Metals SDN Bhd, and quotes prices in ringgit for a variety of investment-grade gold bars. Public Gold manufactures its own gold bars and coins, which are sold through its trading and dealer network. Coins are also popular among gold investors and collectors.

There are two well-accepted coins in Malaysia. One is the "Kijang Emas" (barking deer) gold coin, which is legal tender and has three different weights and denominations: 1 oz (RM200), ½ oz (RM100), and ¼ oz (RM50). They are minted by the Royal Mint of Malaysia and were first issued on 17 July 2001. The purchase and resale price of Kijang Emas is determined by the prevailing international gold market price.



The other product is a gold “dinar” coin, which comes in four different sizes: 4.25g (1 dinar), 8.5g (2 dinars), 21.25g (5 dinars) and 42.50g (10 dinars). There are a large variety of dinar editions in Malaysia, including government-issued ones, such as the Kelantan dinar, Perak dinar or Malaysia dinar.

Gold Investment Accounts

Gold investment/savings accounts or accumulation plans are widespread in Malaysia and are offered by a number of banks. A gold investment account is an account that allows the holder to invest in gold commodities without the need to keep physical gold. Currently, only certain banks in Malaysia offer such an account. By paying fees or a premium, investors can withdraw physical gold from their account. Additionally, there are gold accumulation/savings programs (GAPs), which are long-term gold savings plans backed by physical gold 100%. It is the easiest method of gold savings at the moment. Additionally, a GAP is not just for investment as investors can withdraw physical gold to use as they please.

Tax Incentives

Approved IPM product purchases are treated as tax-free investments. No tax applies for selling or buying IPM in Malaysia and no taxes apply for export or import of IPM products, though this requires an export permit and the central bank’s approval.

To facilitate the cash flow of jewellery manufacturers, Royal Malaysian Customs introduced the Approved Jeweller Scheme (AJS), under which the IPM supplier does not have to pay GST when supplying gold or other precious metals to jewellery manufacturers. Although manufacturers are liable for GST, this only applies when the metal is used to fabricate finished goods for the local Malaysian market. Exported gold jewellery remains zero-rated for GST.

The Shari’ah Standard on Gold

The launch of the Shari’ah Standard on Gold (the “Standard”) by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in December 2016, which for the first time sets out specific rules for the use of gold as an investment in the Islamic finance industry, is a potential game changer for the Islamic finance industry. It has the potential to drive demand in Malaysia as it potentially opens up the way for Islamic institutions to trade gold more actively. The compliance of the Public Gold bar with the Standard was clarified at a press conference on 8 Feb 2017.

Dirhams and Dinars in Islam

The Islamic dinar is a specific weight of 22K gold (.917) equivalent to 4.25 grams. The Islamic dirham is a specific weight of pure silver equivalent to 3 grams.

The dinar is a very unique gold product. If it is the same standard as the Islamic dinar, it can be used for savings, to pay zakat and dowry as required by Islamic law, and to buy or sell goods, as it is a legitimate medium of exchange.

Futures Market

As with the nature of gold demand in the country, exchange-traded gold products are not well-developed in Malaysia, but Bursa Malaysia Derivative Berhad offers a listed retail gold futures contract.

Bursa Malaysia (The Malaysia Exchange)

Bursa Malaysia is the holding company that oversees both the Malaysia Stock Exchange (MSE) and Bursa Malaysia Derivative Berhad (BMD). The Securities Commission of Malaysia is the supervisory board of BMD.

Conclusion

Malaysia has a healthy gold market, with an emphasis on gold jewellery fabrication. Despite the widespread availability of investment gold bars in banks and jewellery shops, domestic demand only accounts for a quarter of total demand, with the rest of Malaysian gold exported. However, this new introduction of Shari'ah Standard on Gold, which set a clear guideline for Islamic investment in gold, is expected to spur the development of new investment asset classes, and Islamic banks and other financial institutions should be able to expand customer base with new products create under the guidance of the standard. It has the potential to make Malaysia a gateway to Asean for Islamic money from the Middle East and the rest of the Islamic world. Besides, Bank Negara Malaysia, the country's central bank, has a history of studying gold circulation in the Middle East as the region has a history of accepting gold as money.

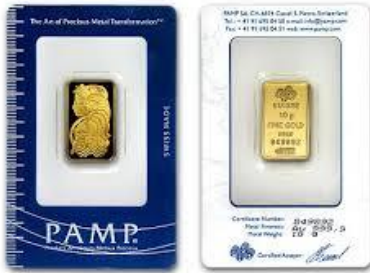
Economic Data (2015)

Population: 31 million
GDP: 5 %
GDP/P: \$10,222
CPI: 2.1%
Exports: \$200 billion
Import: \$176 billion
Foreign Reserve: \$95 billion
Foreign Debt: \$65 billion

Source: FOCUSECONOMICS

Appendix

Sample Gold Coins and Bars



Islamic Dinar



Kelantan Dinar



Perak Dinar



Public Dinar



GCP Dinar



Nabawi Dinar

Regulatory Bodies

- Bank Negara Malaysia (<http://www.bnm.gov.my/>)
- Royal Malaysian Customs (http://www.customs.gov.my/en/tp/pages/tp_ie.aspx)
- Securities Commission Malaysia (<https://www.sc.com.my/>)

Exchange Control Act

Dealings in gold in Malaysia are governed under the Exchange Control Act 1953 (ECA 1953).

Under Part 1 of the ECA 1953, 'gold' means gold coins and bullion and includes any gold in whatever state or form other than gold which has been materially increased in value by skilled craftsmanship; Under section 3(1) of the ECA 1953, Bank Negara Malaysia (the "Central Bank") shall be responsible for administering, enforcing, carrying out, and giving effect to, the provisions of the ECA 1953 and the Governor of the Central Bank shall be the Controller of Foreign Exchange for the purposes of the ECA 1953 and shall exercise, discharge, and perform on behalf of the Central Bank, the powers, duties and functions conferred on the Controller under the ECA 1953.

Amendment to the Exchange Control Act 1953

A circular letter dated 1 April 2007 was issued on the Amendment to the ECA 1953 for further clarity.

The amendments to the ECA 1953 made were as follows:

- Section 4(1) and 4(3) were amended to regulate preparatory acts relating to dealings in gold or foreign currency by any person (resident and non-resident) in Malaysia other than an authorised dealer;
- Dealings in gold or foreign currency refer to the buying, selling, borrowing or lending of gold or foreign currency.
- Section 4A was introduced to regulate advertisements relating to dealings in gold or foreign currency by any person (resident and non-resident) in Malaysia other than an authorised dealer.

Bank Negara Malaysia has issued an Exchange Control Notice 2 (ECM Notice), which applies to dealings in gold as stipulated under section 4 of the ECA 1953. For the purpose of this ECM Notice, 'dealings in gold' means buying or selling, whether spot or forward, borrowing or lending, importing, exporting, holding, manufacturing, smelting and refining of gold.

Under the ECM Notice, the 'Controller' hereby gives permission to any person to undertake dealings in gold.

Preparatory acts and advertisements on dealings in gold or foreign currency

Pursuant to the Exchange Control (Gold Exemption) Order 1986, residents and non-residents in Malaysia are free to buy, borrow, sell, lend or export gold.

To facilitate the above transactions, the Controller of Foreign Exchange (the Controller) gives general permission to a resident or a non-resident, in Malaysia to

issue, publish or facilitate the issuance or publication by any person, of an advertisement containing –

- an invitation or an offer to buy, borrow, sell or lend any gold; or
- information which is intended or might reasonably be presumed to be intended to lead, directly or indirectly, to the buying, borrowing, selling or lending of any gold.

The term ‘advertisement’ is as defined in subsection 4A (2) of the ECA 1953, and means the disseminating or conveying of information, invitation or solicitation by any means or in any form, including by means of –

- any newspaper, magazine, journal or other periodical;
- posters, notices or signboards;
- circulars, handbills, brochures, pamphlets, books or other documents;
- letters addressed to individuals or bodies;
- photographs or cinematographs film; or sound broadcasting, television, computer or other electronic means.

Links

Guide on Investment Precious Metals:

http://gst.customs.gov.my/en/rg/SiteAssets/industry_guides_pdf/GUIDE_ON_PM19052016v2.pdf

Approved Jeweller Scheme:

[http://www.customs.gov.my/en/pg/pg_ig/Approved%20Jeweller%20Scheme%20\(revised%20as%20at%206%20May%202014\).pdf#search=gold](http://www.customs.gov.my/en/pg/pg_ig/Approved%20Jeweller%20Scheme%20(revised%20as%20at%206%20May%202014).pdf#search=gold)

Exchange Control Act:

http://www.customs.gov.my/en/pg/Documents/Act_17-ECA%201953.pdf

© 2017 Singapore Bullion Market Association

Content, views, opinions and other information expressed in this publication are intended for general information and to highlight issues. While we endeavour to ensure its accuracy and completeness, we do not represent nor warrant its accuracy and completeness and are not liable for any loss or damage arising from any reliance thereon. You shall be responsible to evaluate the quality, adequacy, completeness, currentness and usefulness of all content, views, opinions and other information in this publication. Further, you should seek professional advice at all times should you have any queries or issues to address and obtain independent verification of the content, views, opinions and other information provided herein.

For any inquiry on this report or about SBMA generally, please contact Hawk Namiki at hawk.namiki@sbma.org.sg