Asia moves to corner more of the world’s gold business

It is some coincidence: just as speculation mounts as to whether the London gold fix will survive, this week the London Bullion Market Association held its bullion market forum in Singapore for the first time. And at the forum it was announced that Singapore will in September launch the exchange-traded Singapore Kilobar Gold Contract, the first wholesale 25-kilo bar contract to be offered globally. This will allow Singapore to offer a centralised trading and clearing of a *physically-delivered* (my emphasis) gold contract. The announcement had this telling sentence: “With this contract, global suppliers of gold are able to connect more effectively with their Asian clientele”.

The development could also hasten the end of the London gold fix, which involves a daily teleconference involving four banks during which a price benchmark is set. Even though most gold trading now involves Asia, Reuters says China still follows the London fix benchmark. China and Singapore having been looking at ways in which to offer their own independent benchmarks.

What with a new gold futures contract being launched in the Shanghai Free Trade Zone, the amassing in China of a large share of global mine production, and Western investors liquidating their gold positions in a classic short-term thinking move, control of the world’s gold seems to be moving inexorably to Asia. Reuters also points out that the biggest exchange in terms of gold contracts traded is still COMEX.

But, clearly, the Singaporeans are not going to shrink from the challenge to the primacy of London and New York.

This also coincides with a report from Vienna-based Erste Bank which has long followed the gold story. The Austrians point out that China and India – they dub them “Chindia” – took 62% of the world’s gold last year. Erste is predicting gold back at $1,500/oz and arguing that gold is now attractively priced relative to other asset classes. And even the normally sceptical Deutsche Bank sees the metal consolidating at around its recent highs. Talk of $1,000/oz gold seems to have subsided, well and truly.

That the Singapore plan has clout is shown by the outfits that are supporting it: the Singapore government’s enterprise arm, the Singapore stock exchange, Singapore Bullion Market Association (or SBMA, the representatives of that association being JP Morgan, Standard Chartered Bank, Standard Merchant Bank and Bank of Nova Scotia). This move followed the removal by Singapore of the goods and services tax (equivalent to VAT) on precious metals. And, to top it off, tomorrow sees the opening by Metalor Technologies of its “world class bullion manufacturing and refining facility in Singapore”. That means more large gold bars sold off in Europe being shipped to Singapore to be refined into the smaller bars Asian investors prefer.

It all points to even greater demand from Asia. The SBMA says the plan is to encourage further gold products to be developed.

This is Singapore’s move to carve for itself a good share of the $18 trillion gold industry (that sum including all the trading of gold derivatives, which instruments are worth a good deal more than the actual physical gold being produced). A gold analyst with Australia & New Zealand Banking Group said the move would be positive for Asian gold demand. After the Singapore government removed GST from precious metals, transactions in gold rose 94%.

Erste Bank’s report notes that “the growing importance of Asia’s middle class and the passion for gold in Asia is still widely underestimated”.