



China's Gold Market Going Global

Together with SGE to Create Golden Future

Zhao Fanghua General Manager
Shanghai International Gold Exchange

June 11, 2019 Singapore



Business Introduction of
Shanghai Gold Exchange

Business Introduction of
Shanghai International Gold Exchange

Global Cooperation of China's Gold Market

Part One

Business Introduction of Shanghai Gold Exchange

Overview of Shanghai Gold Exchange

Shanghai Gold Exchange (SGE) was established on October 30, 2002, by the People's Bank of China (PBC) upon the approval of the State Council, and registered with China's State Administration for Industry & Commerce. SGE is a non-profit, self-regulatory, and membership based corporation. Its establishment has been instrumental in helping create a market-driven system for the production, consumption, and distribution of gold in China.



Trading

Offers trading services for gold, silver, platinum and other precious metals.



Settlement

Provides settlement services based on the principle of "centralization, netting and multi-tiered".



Delivery and Vaulting

Provides services including registration and custody, delivery, quality certification, logistics and shipment, transfer of pledged or leased bullion, and gold ETFs.



Member Management

Regulates members according to Articles of Association and market rules.

Key Figures of SGE

In **2018**, annual turnover across all markets on aggregate reached **¥ 21.32 trillion** (+9.20% YOY);

In **2019 Q1**, annual turnover across all markets on aggregate increased to **¥ 4.97 trillion** (+13.12% YOY);



260 Members



12,046 Institutional customers



9.98 million Individual customers



Domestic Members : **90%** of China's gold production output and consumption volume; **95%** of the country's refining capacity

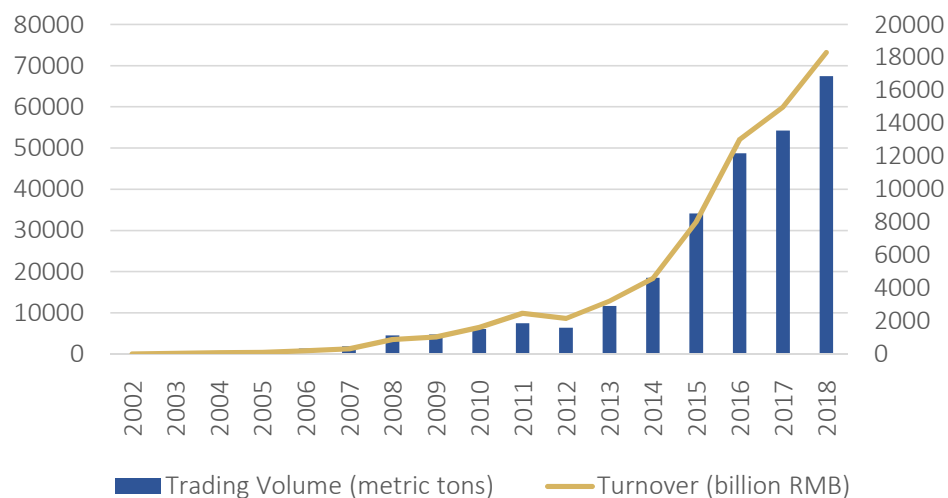


Top **2** gold trading volume in the global exchange-traded market



The world largest exchange-traded physical gold platform in terms of trading volume for the consecutive **12** years

SGE Gold Trading



Market Structure

China has a multi-tiered, fully functioning gold market system comprising a centralized market place of Shanghai Gold Exchange as the core, a competitive but well-organized secondary market led by commercial banks and a diverse derivative market of Shanghai Futures Exchange as the pillar.



center of gold trading , clearing , delivery, vaulting , information and transit

➤ Price Matching Market



In 2018:

Gold trading reached 20,400 tons

Silver trading reached 934,100 tons.

In 2019 Q1:

Gold trading reached 5,793.92 tons.

Silver trading reached 221,500 tons.

The trading mode in which orders at the prices set freely by market participants are matched and filled by SGE under the principle of “**price priority**” & “**time priority**”.

Physical Trading

Physical trading is full amount trading, the counterparties must have full amount of funds or physicals.

Deferred Trading

Deferred trading is traded on margin. It allows investors to perform delivery on the transaction day or postpone to a later date. Meanwhile, Deferred Interests are introduced to adjust imbalances in the supply and demand of physical bullions.

Features

Capital efficiency: Margin Trading.

Flexible delivery: Daily Delivery Tendering.

➤ Benchmark Pricing Market (“Shanghai Gold”)

Shanghai Gold Benchmark Price is a gold benchmark price product with trading unit of RMB per gram and its underlying gold ingots with a standard weight of 1kg and a fineness of no lower than 99.99%.



Trading volume hit 1,474.71 tons in 2018 and registered 263.07 tons in 2019 Q1.

Features

Unique trading mechanism	Centralized pricing trading with relatively balanced volume of buying and selling.
	Coincide with the price matching market to promptly correct price differences and prevent deviation.
Central clearing and physical delivery	SGE acts as the central counterparty.
	Customers use the same funds accounts and bullion accounts as for price matching and price asking market.
Wide-ranging participant base	Covering domestic and foreign gold producers and consumers, commercial banks, fund management companies, securities firms, etc.
	Customers can directly trade through SGE API.
Tradeable price	A fully executable price, which makes it different from the opening price, closing price, and settlement price.

➤ Price Asking Market



Price asking trading is **bilateral credit trading** based on the credit relationship between the trading counterparties with negotiated trading product, volume. It includes **trades concluded through the price asking platform designated by SGE, or trades executed by the trading counterparties, registered with SGE.**

In 2018, gold trading reached 4,5600 tons, silver trading registered 50,100 tons.

In 2019 Q1, gold trading reached 8,500 tons, silver trading registered 892.02 tons.

➤ Leasing Market



The lessor will **lend its physical products to the lessee at the beginning of their contract period.** The lessee will then return the full amount of gold and pay the corresponding interests to the lessor, when their leasing contract reaches the expiration date.

SGE's leasing business mainly includes: physical leasing between interbank financial institutions, and physical leasing between banks and enterprises.

➤ Gold ETF



SGE is responsible for transferring physical gold contracts between investors and gold ETFs, and for registering and keeping custody of physical gold contracts.

In 2018, trading volume reached 1,095.51 tons.

In 2019 Q1, trading volume reached 311.07 tons with 4 gold ETF's market value of 40.57 tons.

➤ Gold Coin Market

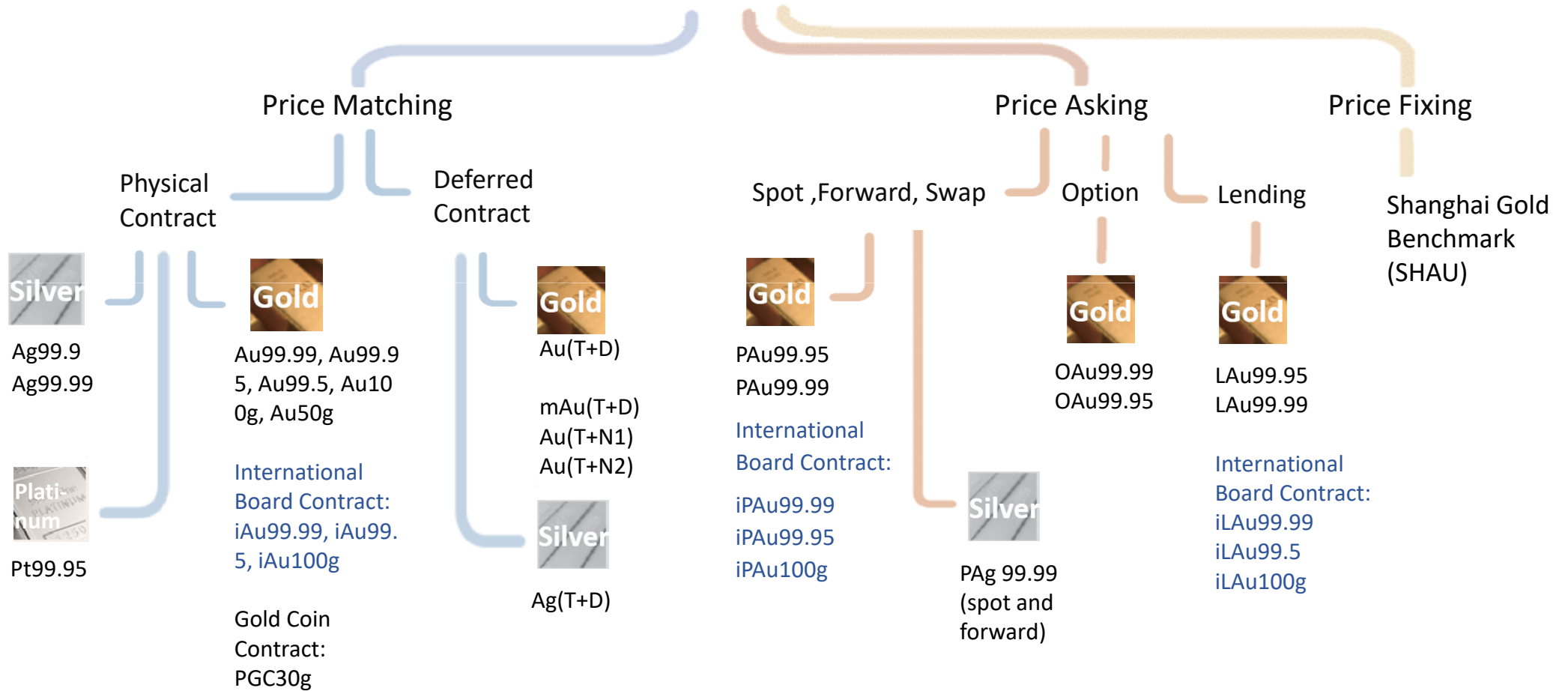


In September 12, 2018, SGE launched Panda Coin contract.

Panda coin was traded actively in 2018 with annual turnover of RMB 566 million.

In 2019 Q1, trading turnover reached RMB 6.39 million.

Product System



Trading Hours

After the extension of trading hours, SGE's price matching market and price asking market will cover the major global gold trading periods in coordination.

		Night Session												Day Session										
		20	21	22	23	24	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Price Matching Market	2019.6.10 ~ 2020.1.1	6.5h						6.5h																
	After 2020.1.1	19.5h																						
Price Asking Market	2019.6.10 ~ 2020.1.1									8h														
	After 2020.1.1									10.5h														

Part Two

Business Introduction of Shanghai International Gold Exchange

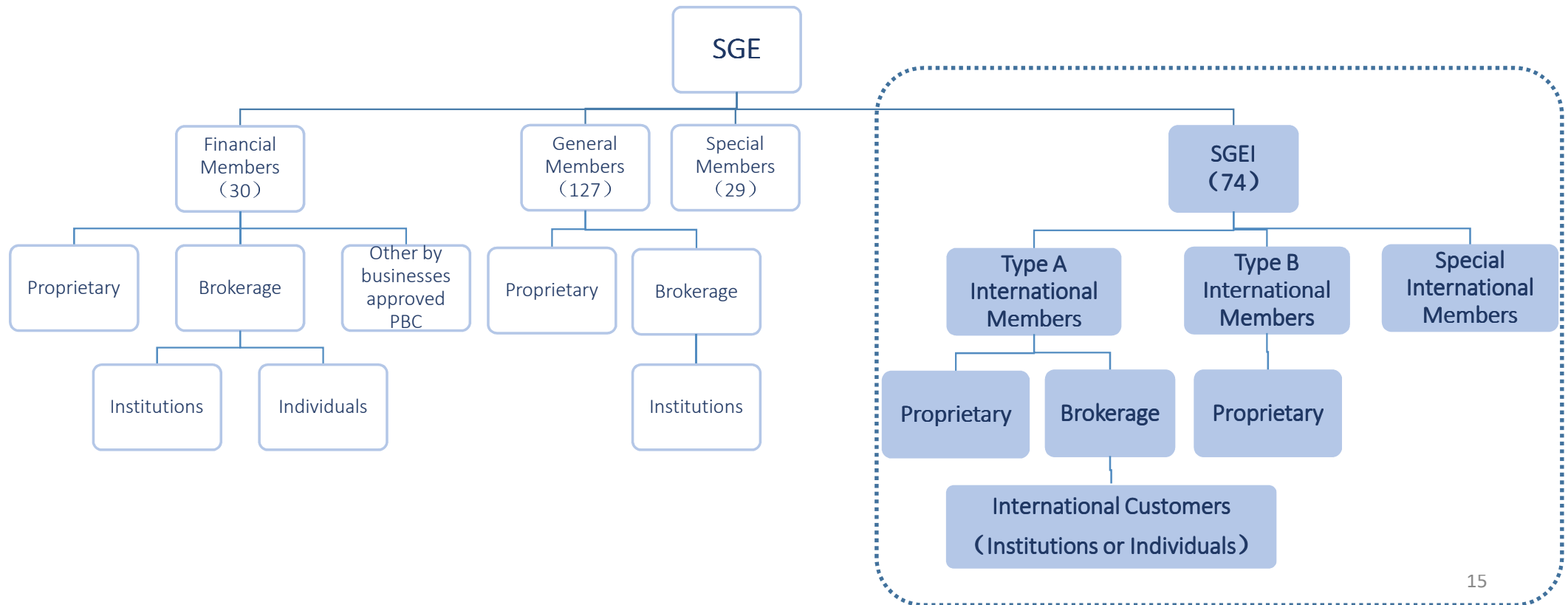
Overview of Shanghai International Gold Exchange

Shanghai International Gold Exchange Limited Co. (SGEI or the “International Board”) was founded in September 2014 as a fully owned subsidiary of SGE registered in the Shanghai Pilot Free-Trade Zone. The establishment of International board symbolized an important step for China’s Gold market towards opening up.



SGEI Market Access

International investors can access the international board through 2 methods: becoming an international member or becoming international customer. Currently, SGEI has admitted 74 international members including major international banks, gold industry multinationals, investment institutions, and etc.



Trading

International members and customers and domestic members and customers **trade in the same pool**. In addition to international board contracts, oversea investors are able to trade the mainboard contracts that are permitted by SGE and SGEI.

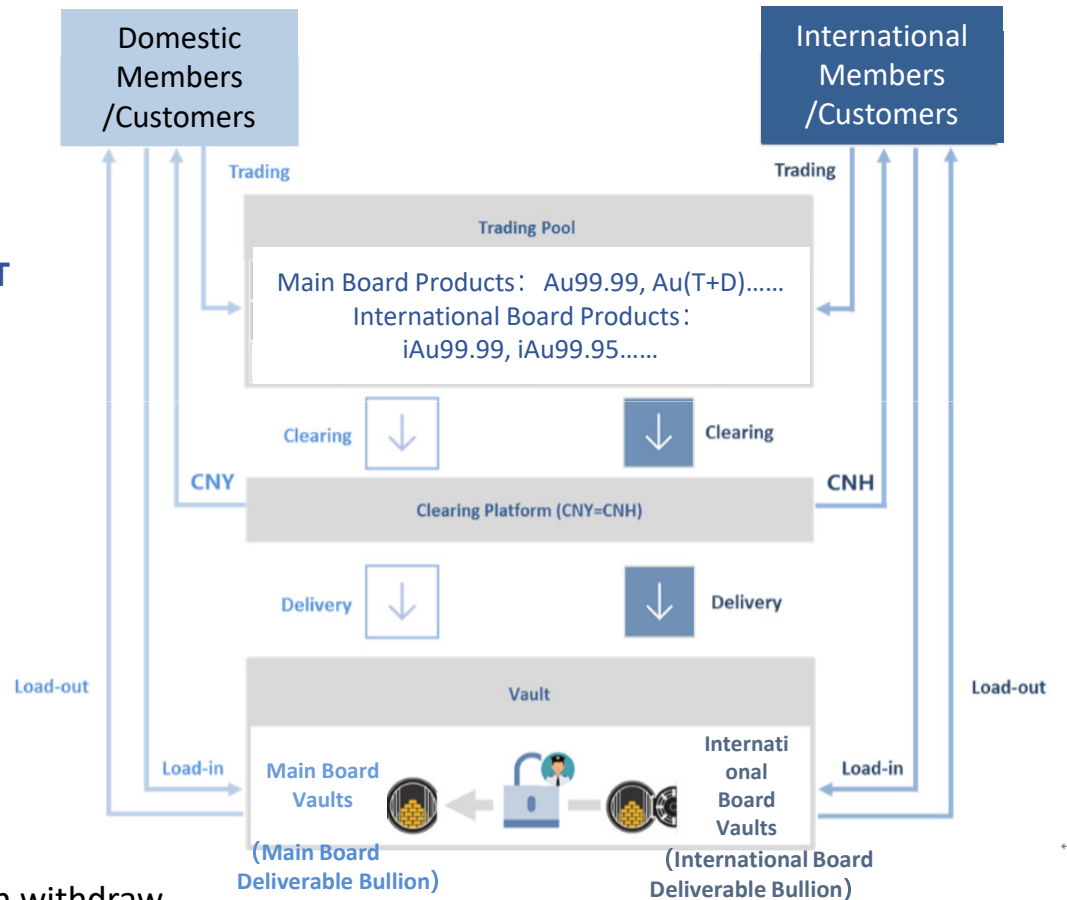
Funds

International members and customers should open **FT Accounts** and trade with **offshore Renminbi (CNH)**.

Delivery & Vaulting

International members and customers can deposit and withdraw SGEI deliverable bullion through international board vaults.

	Finness	Weight
LBMA Good Delivery Refiner	99.99%	1kg
	99.99%	100g
	99.5%	12.5kg



*Domestic members/customers who have gold import license can withdraw the bullion from the International vault and sell on the main board.

Market Overview

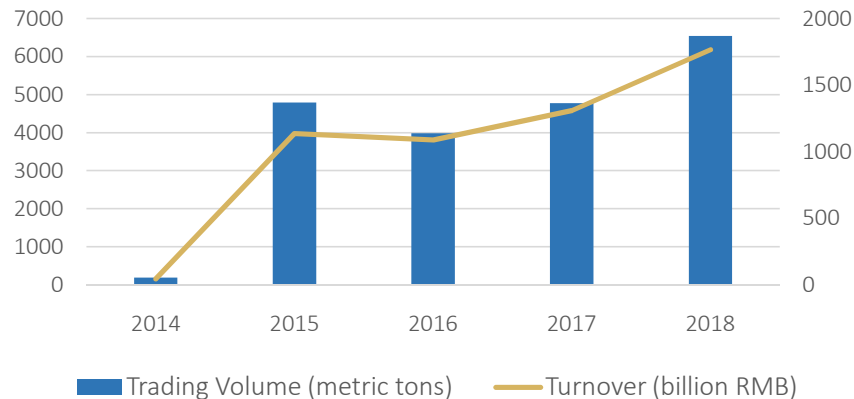
In 2018, total trading volume of SGEI surged to **28,300 metric tons** (+133.12% YOY).

Gold 6,549 metric tons and **Silver 21,784 metric tons**.

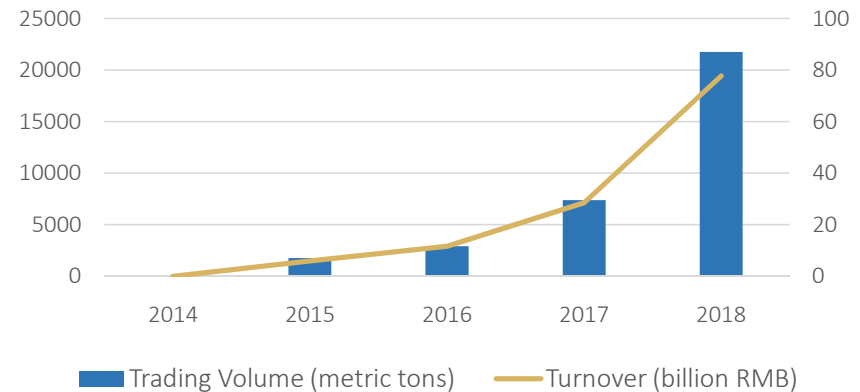
In 2019 Q1, total trading of SGEI hit **13,100 metric tons** (+187.31% YOY).

Gold 1,150 metric tons and **Silver 11,992 metric tons**.

SGEI Gold Trading



SGEI Silver Trading



International Cooperation



- **Kept close cooperation with Dubai Gold and Commodity Exchange (DGCX).**
Signed Shanghai Gold Benchmark cooperation agreement and licensed DGCX to develop and launch gold futures based on Shanghai Gold Benchmark Price.



- **Signed MOU with Moscow Exchange (MOEX).**
Searched for business expansion, personnel exchanges, product and technology innovation and other cooperation opportunities.



- **Promoted cooperation with countries and regions along “the Belt and Road”.**
Further explored cooperation models with Borsa Istanbul, Macao Monetary Authority (AMCM), Bursa Malaysia Berhad, Thailand Futures Exchange and Myanmar Gold Enterprise Association;
Searched for cooperation opportunities with Indian market.



- **Strengthened cooperation with Singapore Bullion Market Association (LBMA).**
Carried out discussion on promoting Asia gold market jointly.



- **Advanced cooperation with CME Group.**
Conducted research and discussion on business cooperation models such as price licensing to promote market connectivity.

Part Three

Global Cooperation of China's Gold Market

The Foundation of Cooperation

- World's largest gold producer, consumer, importer and processor;
- A complete upstream and downstream gold production chain;
- Advanced gold processing capacity.

China's Gold Market



Global Gold Market

- **The increasing importance of gold investment under the influence of economic structure reform, financial market uncertainty and geopolitical turbulence;**
- **The trend of gold moving from the west to the east.**

Gold Processing in Guangdong and Shenzhen



Gold and precious metal jewelry industries in Guangdong and Shenzhen have seen a rapid growth.

Industry scale of this region ranks first in the country, accounting for above **70%** of the country and likely around **30%** of the world.

Complete Industry Chain

Established a complete industry chain covering exploration, mining, metallurgy, trading, investment, jewelry processing and retail.

High Industry Concentration

Created a virtuous circle between cost advantage and industry concentration.

In-depth Industry Transformation

Obtained strengthened support from local government to promote industry transformation.

Cooperation Initiative

Optimize geographic distribution of international board vaults to further promote global cooperation.



Cooperation Framework



- Provides gold trading platform for gold producers and gold jewelers;
- Offers services covering trading, settlement and delivery;
- Provides gold vaulting and delivery, pledging and leasing services.

Mode1 Buy gold from the international board, and delivery the gold back or to other countries or regions;

Mode2 Consign China's gold processing company to process gold deposited into, or bought or leased from the international board, and sell the re-exported finished product across the world.

Sell gold in line with international market certification standards through the internal board to market participants.

Business Procedure

Gold Producer

Business Mode: Sell gold through the international board



Load-in Authorization Requirement:

Shall be a LBMA Good Delivery Refiner.



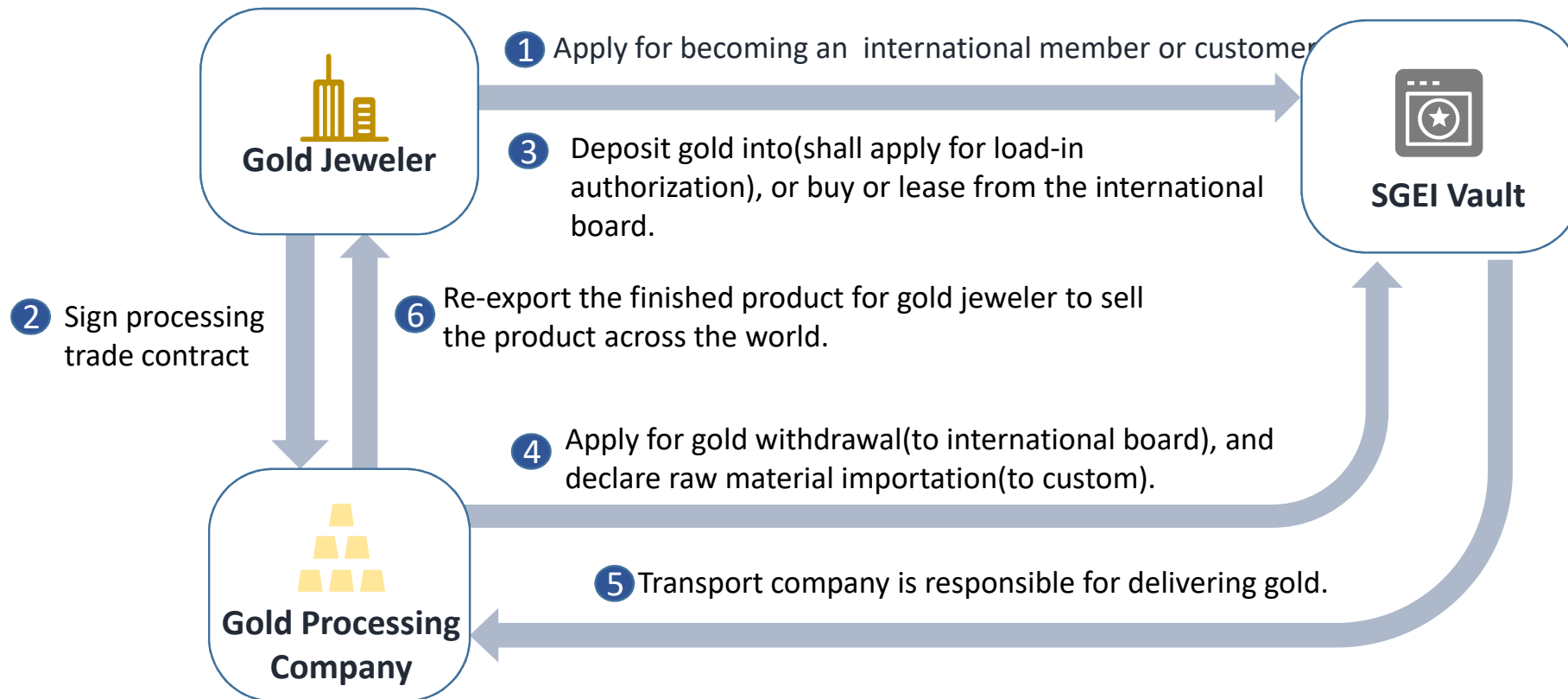
- ✓ Application Form for Load-in Qualification;
- ✓ Proof of the quantity of gold refined in the past year;
- ✓ Letter of quality commitment;
- ✓ Proof that the raw materials for gold are not sourced from conflict or high-risk regions;
- ✓ Photocopy of the product's trademark registration;
- ✓ Illustration of the brand marks of gold ingots;
- ✓ Evidence certifying no material illegal act committed in the past two years.

Gold Jewelers

Business Mode 1: Buy gold from the international board, and delivery the gold back or to other countries or regions.



Business Mode 2: Consign China's gold processing company to process gold deposited into, or bought or leased from the international board, and sell the re-exported finished product across the world.



Meaning of Cooperation

China's Gold Market

- Bridge global gold demand and China's advanced gold processing industry;
- Promote regions including Shanghai and Shenzhen to become a gold vaulting center and transit center;
- Better serve the real economy and promote gold industry's cluster development and upgrade;
- Enhance gold market surveillance by attracting traditional scattered processing industry moving from offline to online.

Global Gold Market

- Participate in globalized, fair and transparent exchange-traded gold market in China;
- Reduce the capital occupying of raw materials during gold processing;
- Get gold jewelry with lower cost and higher quality produced through China's integral gold industry chain;
- Enhance the traceability of gold products to fulfill the "anti-conflict gold" and AML duties by both sides.



Thanks!

SGE Address: No.99, He Nan (M), Huang Pu, Shanghai, P.R. China
Tel: +86 21 33189588

SGEI Address: 42/F, Bank of China Tower, No. 200 Yin
Cheng Rd (M), Pu Dong, Shanghai, P.R. China
Tel: +86 21 20899599