

The Practice of and Thoughts on the Synergy Between Exchange-Traded and OTC Markets

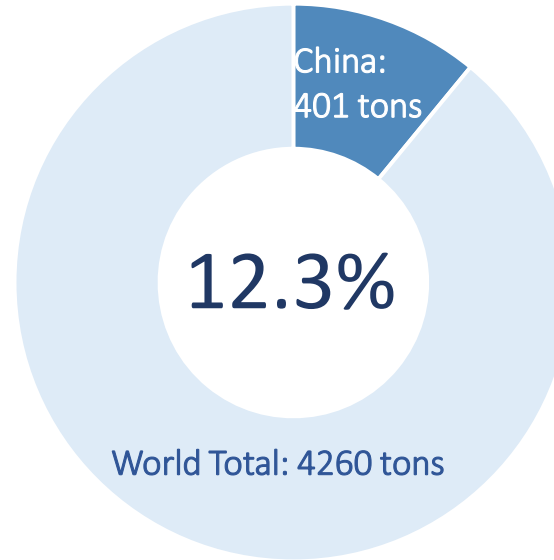
Mr. Wang Zhenying, President
Shanghai Gold Exchange
June 10, 2019



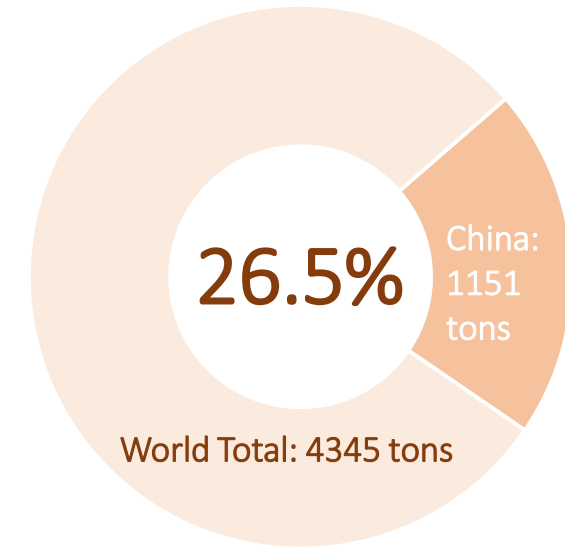
An Overview of Shanghai Gold Exchange

With the trend of gold moving from the west to the east and the development of China's gold market, Shanghai Gold Exchange(SGE) has become one of the key global precious metals trading centers.

- World's largest gold producer, importer and consumer.
- Huge supply and demand in silver.



In 2018, China's gold production registered 401 metric tons, **topping the world for 12 consecutive years.**



In 2018, China consumed 1,151 metric tons of gold, **ranking the first in the world for 6 consecutive years.**



Trading Volume

In 2018, annual turnover across all markets on aggregate reached **¥ 21.32 trillion**, with year-on-year growth of 9.20%. **Gold Trading** grew to **67,500 metric tons** (+24.35% YOY) by volume and **¥ 18.30 trillion** by turnover.



Product & Service Innovation

Better enabled to serve the real economy and optimize resource allocation in 2018.

- Launched Panda Coin, Sliver price asking product, Larger-side margining and other products & services;
- Trimmed transaction costs including reduced commission fees and deferred interest.



International Cooperation

Advance cooperation with international exchanges and precious metals institutions such as CME, LBMA, MOEX, etc.

A Synergized Exchange-Traded and OTC Market on SGE Platform



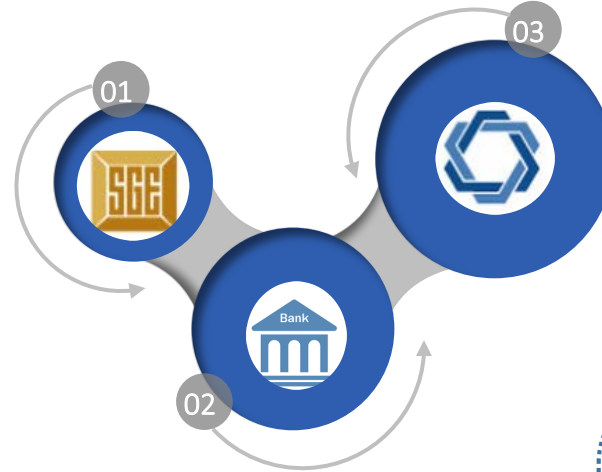
SGE actively exploring market development by adopting the market-driven and internationalization strategy.

➤ The Fledging Synergy between Exchange-traded and OTC Markets

Shanghai Gold Exchange

In 2002, SGE was officially established and introduced price matching trading mode.

In 2004, SGE launched deferred trading product for gold which became the major contract in exchange-traded market.



Commercial Banks

In 2004, commercial banks started offering OTC gold trading services .

Shanghai Futures Exchange

In 2008, SHFE introduced gold futures contract.

In 2010, a pattern featuring Two Exchanges and One OTC market took shape.

How to further promote the OTC derivatives market has since become the focus for market participants.

➤ SGE: To Achieve Greater Synergy between the Exchange-traded and OTC Markets and Enhance Market Functions, to Build a Well-Regulated, Open, Multi-tiered Marketplace

In 2010,
Six national ministries
(including PBoC)
jointly released
the document of *the
Guideline on the Promotion
of China's Gold Market.*



SGE introduced price asking trading in response to PBoC.

- Launched **price asking trading contracts** on a trial basis in 2011.
- Worked with China Foreign Exchange Trade System (CFETS) to launch **inter-bank gold bilateral transaction** in 2012.



“Open Platform”

Diverse trading modes:
price matching, price asking...

Multiple trading platforms: price matching trading platform, price asking trading platform, CFETS...

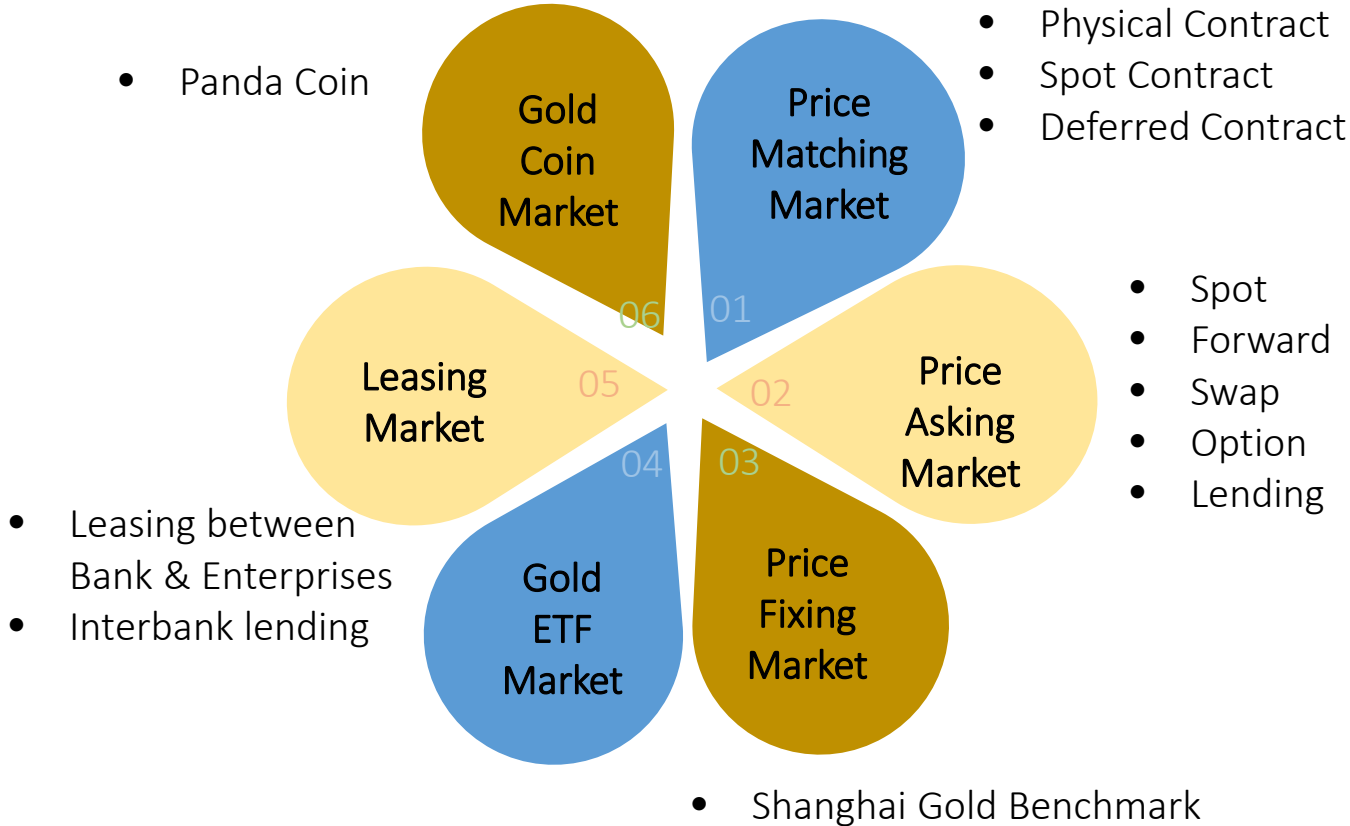
OTC

+

Exchange-traded

➤ Key Highlights

1. Building a Multi-Level Market System



2 Boards *Main Board & International Board*

6 Markets *Price Asking, Price Matching, Benchmark Pricing, Gold Coin, Gold ETF, Leasing*

23 Hr. 30 min. *By 2020, SGE's price matching market and price asking market will cover the major gold trading hours globally.*

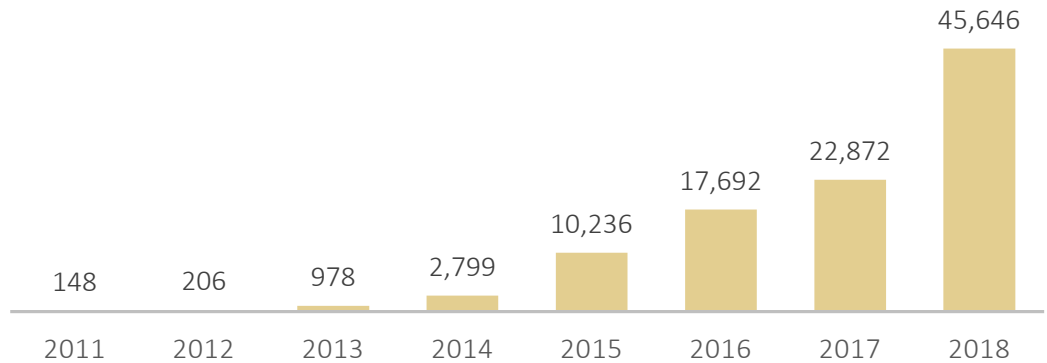
2. Diversifying Product Offerings

Fully tapping into SGE's core strength as a physical delivery hub by offering bespoke products and services to the upstream and downstream enterprises in gold sector
 A case in point, Bring in gold coin from the OTC market to the exchange-traded market.



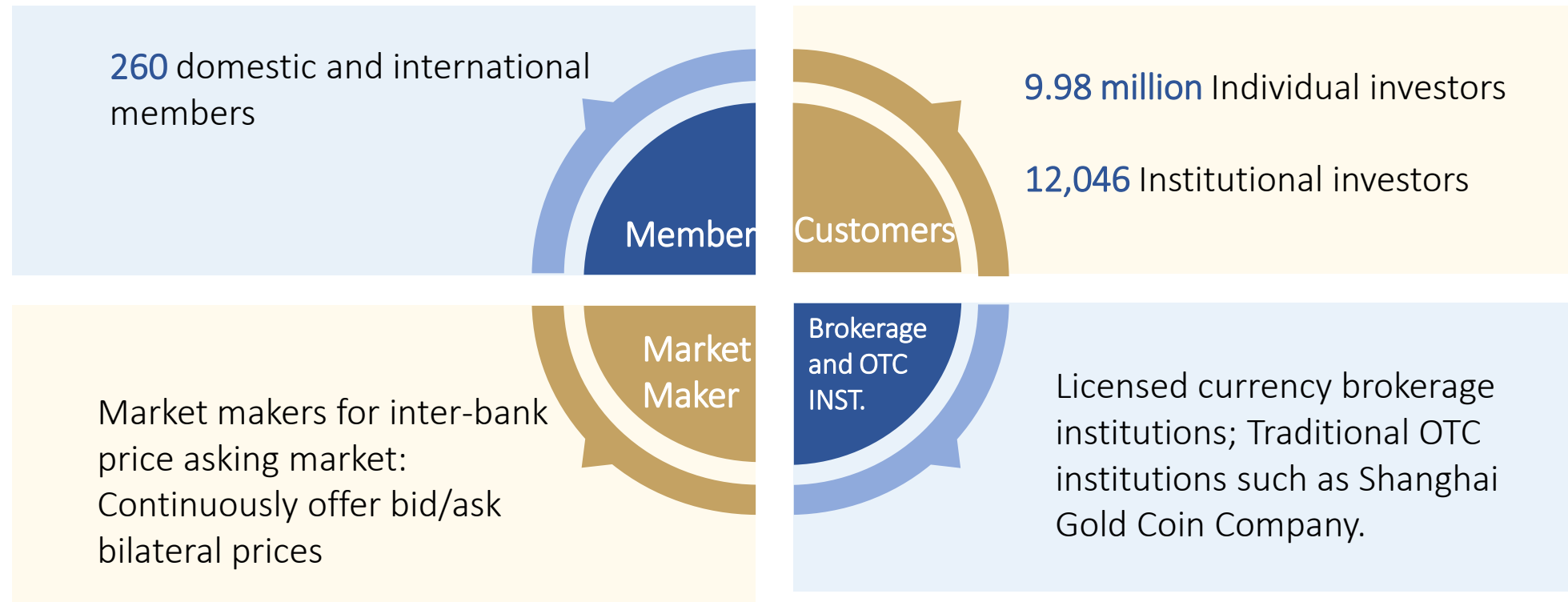
Promoting the standardization of OTC derivatives trading by attracting trading in OTC market to register and trade on SGE's platform, and provide one-stop services from trading to clearing. In 2018, SGE's price asking trading volume reached 45,646 tons.

SGE Price Asking Market Trading Volume (metric tons)



3. Expanding Market Participants Base

Covering domestic and oversea market participants from exchange-traded market and OTC market.



4. Promoting Price Discovery



“Shanghai Gold Benchmark Price, the first RMB-dominated benchmark price trading contract in precious metals, serves as a barometer of international gold market in Asian trading hours.

Over the past 3 years, gold asking derivatives market price moved in tandem with the Shanghai Gold Benchmark Price.

- Look to build a **Medium and long-term Gold Forward Benchmark price system** (with a maturity from 1 month, 3 months, 6 months and 1 year) in accordance with *central bank's latest stability report*.
- Expand the **application scenarios of “Shanghai Gold” benchmark price into OTC derivatives** and optimize product system.

Thoughts on the Synergy between Exchange-traded and OTC Markets

Think from Market Stratification and Synergy's Perspective



work with all market participants to build a multi-level and full-service market system together rather than adopt a one-size-fits-all market mode to build a centralized market,

Stay Focused on the Top-Level Design of Gold markets



- **Seize the opportunity in Gold market:** PBoC issued a set of rules on Gold deposits, gold assets, and Internet gold in 2018. Gold deposits, gold assets become a major on-and off-balance sheet items for financial institutions.
- **Promote Exchange-traded market and OTC market synchronously to meet market demands:** “People’s Gold” with “Shanghai Gold” Benchmark Price.

3rd ASIA PACIFIC
PRECIOUS METALS
CONFERENCE

9-11 June 2019

PARKROYAL on Beach Road, Singapore

Thanks!