Challenges faced by regional market players in Asia

Mr Sunil Kashyap
Director, FinMet Pte Ltd.

The bullion market in Asia is going through a slow transformation which has already resulted in increased marginalization of the mid-tier players. Asia's regional corporates and institutions are being hampered by onerous onboarding requirements and reduced access to international counterparties. Therefore, costs of doing business are rising and margins are under pressure.

In our view, there are major five challenges for Asia's market players which need to be addressed through innovative and customized solutions. They are, in no particular order, the following :

1. Minimal direct physical metal trade between producing and consuming countries in Asia
2. Reduced access to market liquidity
3. Limited role of Regional commercial banks
4. Lack of financing options for metal inventory
5. Hurdles for Asian "champions" to become Global "winners"

At FinMet, we are taking a closer look at each of these issues, dissecting the reasons behind them and building possible pathways to solutions. In this article we will share some of the work we have done on the subject.

One of the most vexing aspects market observers note is that the vast share of gold and silver that is produced and exported from countries like Australia, Indonesia, Korea, Philippines and China is sold to non-Asian players who in turn deliver the metal to consuming countries like China, Thailand, India, Vietnam, Cambodia and Malaysia. The value of direct trade between these countries accounts for less than 15% of the market. The predominant reasons behind this are to do with lack of trust, visibility, and financing. Accordingly, we are working on building direct relationships between large producers and consumers by providing more market intelligence and understanding to both sides. We are creating trust through dialogue and open communication. The benefit of forging these relationships is that it enables both buyers and sellers to share the discounts and premiums that prevail in the market which are currently being retained by intermediaries.

The reduced activity in Asia of some major international bullion banks has crimped the ability of mid-tier players here to access liquidity especially in the over-the-counter market. Opening a trading account with an established liquidity provider can often take 4-6 months

and involves furnishing numerous disclosure documents. Very often it may also require revealing proprietary business information. Players outside the major financial centers of Tokyo, Hong Kong and Singapore are particularly hard-hit by these enhanced due diligence requirements. The consequent reduced market access adversely affects profit margins and increases market risk for these companies.
To address this issue, we are introducing new trading platforms to the market and educating players on how to use these new tools. These Asian based platforms are more attuned to the market norms and are nimble enough to respond to specific customer needs in the region.
Commercial banks in Asia tend to cater specifically for their local bullion market needs and have not really expanded their services beyond their home country into other countries in the region. The local banks in China (ICBC, BOC, CCB), India (ICICI, HDFC), Hong Kong (BOCHK, OCBC Wing Hang), Taiwan (BOT), Singapore (OCBC, DBS) and UAE (Emirates NBD, NBF, RAK) have developed considerable expertise in their physical trading, hedging and metal financing in their home markets, but have been shy to expand into other regional markets with the similar customer needs. The reticence stems from a lack of risk appetite and in-depth knowledge about other bullion markets in the region. We are working with some of these banks to help them develop an understanding of these markets and extend their product footprint especially as it relates to physical metal trading and financing.

Metal inventory financing has emerged as one of the critical needs of market players in Asia. The demand for financing metal stocks is driven by an increase in gold and silver prices in the last two years and the growing gap between demand and supply surge cycles. In addition, COVID-19 driven logistical delays and lack of metal fungibility have accentuated the problem. The reduced risk appetite of several international bullion banks and changes in NSFR have further reduced the availability of metal funding. Against this background, we have structured new financing solutions that suit the credit policies of regional financial institutions by using the existing market infrastructure to enhance fungibility and transparency of the underlying metal being financed. These new products help mid-tier jewelers, industrials and traders to access a new source of liquidity to reduce their funding costs and improve their bottom-line.
Lastly, one of the enduring themes across the bullion markets in Asia is the absence of regional leaders from the global stage. While reviewing the gamut of the bullion market spectrum from producers to traders, industrials and final product consumers we can identify leading, strong players in local markets who have been unable or unwilling to expand their activity meaningfully globally, or in most cases even regionally. There are several reasons behind this lack of scale including strategic focus, management depth, financing ability and margin compression.
Our goal is to educate these local leaders about opportunities in other markets and assist them to utilize their core competence to grow their presence on the global stage. We achieve this through education, strategic tie-ups and completion of opportunistic transactions. As the level of confidence amongst these Asian companies increase, we are confident they will broaden their customer base and rise up the global rankings.

In conclusion, as markets in the region open up after remaining constrained since 2020 due to the impact of the pandemic, Asian corporates and financial institutions have a major opportunity to break away from the challenges of the past and expand their presence in the bullion markets to boost their profitability and profile. We at FinMet offer our product expertise, market savvy and strategic network to enable them achieve to this goal.