

Japanese Gold market

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There are 2 points that I believe I should point out about recent Japanese gold market

1. JAPANESE RETAIL INVESTORS ARE BUYING GOLD IN UNPRECEDENTED WAY.

Last year September I wrote about changes in attitudes of Japanese investors toward gold. After nearly 10 months, gold has become even more popular as an investment item. Japanese investors became more eager buyers of gold. While Gold in JPY keeps going North, breaking historical high consecutively 11000 yen/gram a year ago to 15500yen. And even at this high level, retail shops are seeing more buying than profit taking selling. This had never happened even 5 years ago.

Japanese investors were known as bargain hunters. They buy when the gold price dips, and they sell when the gold price rallies. However, recently especially after Covid days, they became quite strong buyers of gold even at the price strength. One of the reasons I believe is that the generations of investors changed after Covid. It

used to be elders – like way above 60s who hold gold from a long time ago. As they were bargain hunters, these recent price rallies were quite good opportunities to liquidate their longs and get out of the investment market as they were entering ages to use what they had built.

After Covid, the main generations of investors changed to younger generations. They are from late 20s to 60s. Lot of the younger generation don't know the era when gold was around 1000 yen/gram. For them gold is around more than 15000 yen per gram, and they take it as it is. As they have not experienced those cheaper days, they are not afraid of heights. What they fear is devaluation of the Japanese yen. After the Covid when the world is open, they experienced the loss of the value of their currency against other foreign currencies and felt the inflation quite acutely eating their yen's value.

Younger generations began to feel this trend and they realized they must do something to protect their wealth. Luckily the Japanese government had changed its NISA non-tax account threshold to much higher level to total of 18 million yen from only 1.2million yen on 1st of April 2024. All these situations ushered young and old investors and even non-investors into investment. Gold funds and ETFs could be traded under NISA account without tax. Thus, new money keeps coming into gold funds, gold ETFs and although not a NISA product, physical gold. Since 2024 the AUMs of those products keep going up while US and European market AUM of the gold ETF have been trending lower as the US interest rates are hovering around 5%. In very good contrast to North American and European gold investment, both Japanese Gold ETFs and Gold funds are adding on their AUM continuously.

2. GOLD SMUGGLING CONTINUES TO BE A BIG HEADACHE.

As I mentioned above, we are seeing good investments in gold now. But despite the robust domestic demand, Japan remains a big exporter of gold. We have only one minor gold mine in Kagoshima called Hishikari gold mine which produces about 4 tons a year. Still Japan exports more than 120 tons gold in 2023 and most likely

the same kind of amount of gold exported in 2024. This is purely because of smuggling. Why smuggling? Because of the consumption tax.

Japan introduced a value added tax called Consumption tax in 1989. It started at 3% and rose to 4% in 1994, 5% in 1997, 8% in 2014 and finally 10% in 2019. Consumption tax applies to everything including gold. But the tax is borne by the final consumer, that means when you sell gold, the tax would be borne by the buyer, and you receive consumer tax back. The retail gold price includes consumption tax both the shops' offer and bid.

Japanese retail gold price currently is 10% higher than global price due to the tax. That means if you bring gold from foreign countries where there is no tax over gold and sell it in Japan you automatically get 10% more on the gold price. You must declare the gold you bring in at customs and pay 10% tax. Smuggled gold is the gold brought in without tax declaration and targeted to take this 10% by doing so.

The government is trying hard to avoid this crime but criminals always find loopholes in the system. Most of Japanese Gold market players try not to buy those smuggled gold but there are some who buy with half eye closed. Once those bars are melted down, nobody can tell the difference and those gold are exported in tons to Hong Kong and Singapore in huge amount. Those gold would be coming back to Japan in smuggling again and the loop is repeated forever. Japan is losing money because it levies consumption tax on gold. Personally, I assume this will continue until Japanese government abolish consumption tax on gold but it is quite difficult to change the existing taxation politically. Smuggling will continue to be a big headache for the Japanese gold market and Japan.

