

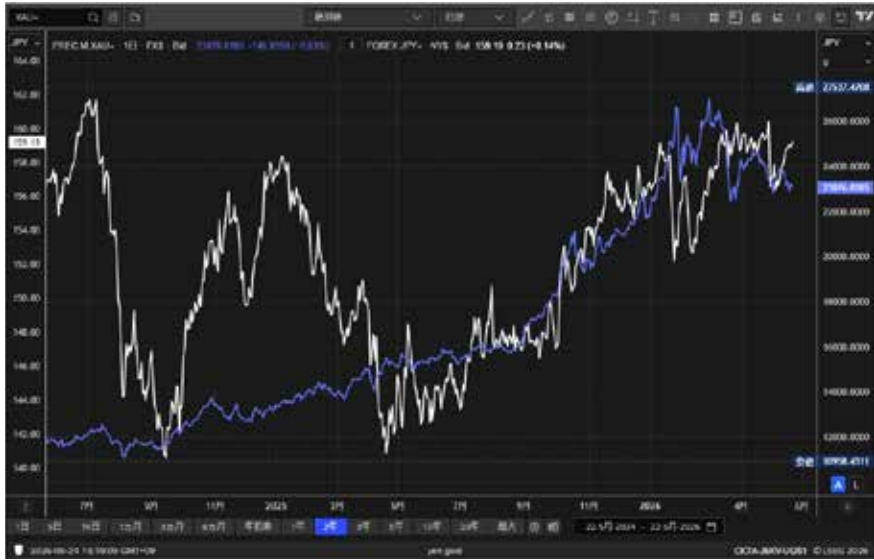


# JAPANESE GOLD MARKET IN 2025 AND BEYOND



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(Gold in yen/grams and Dollar yen past 2 years)



In Japanese gold market, 2025 was the year to remember in many ways. The first thing I have to mention is that the surge in the price was by far the biggest in at least past 40 years I have seen. The year started at 13,460 yen/gram and ended at 21,730 yen/gram. Sixty percent rise in price was the 4th best performer in all the investment vehicles an average Japanese investor had access to. And the ones better

than gold are silver, platinum and palladium, all precious metals. The next one that follows gold was Nikkei Index at 28%, a little far behind gold's 60%. Japanese people rushed to buy gold and other precious metals. This sudden surge of investment demand was of course, for the Japanese gold industry a bonanza but it also brings up the problems we had not faced in the past.

The retail buying was so heavy that all the major physical retailers stopped selling small bars below 500 grams. They could sell 1kg and 500-gram bars continuously, but their production of the smaller bars could not catch up with the huge buying. They stopped selling in October and concentrated on making those small bars 24/7. The sales of small bars resumed in December but still they must limit the daily volume to a certain level so that they can keep the sales every day. The buying of gold by the investors were not limited to physical gold bars.

In October when the buying fever was at its height, the most popular domestic gold ETF "Fruit of Gold" issued by Mitsubishi UFJ Trust Banking, has traded at sharply higher premium over the gold price. This ETF keeps physical gold in Tokyo. As investors' buying interest was far larger than their ability to issue warrants. As a result, existing warrants price went up as high as 20% above the gold price. As

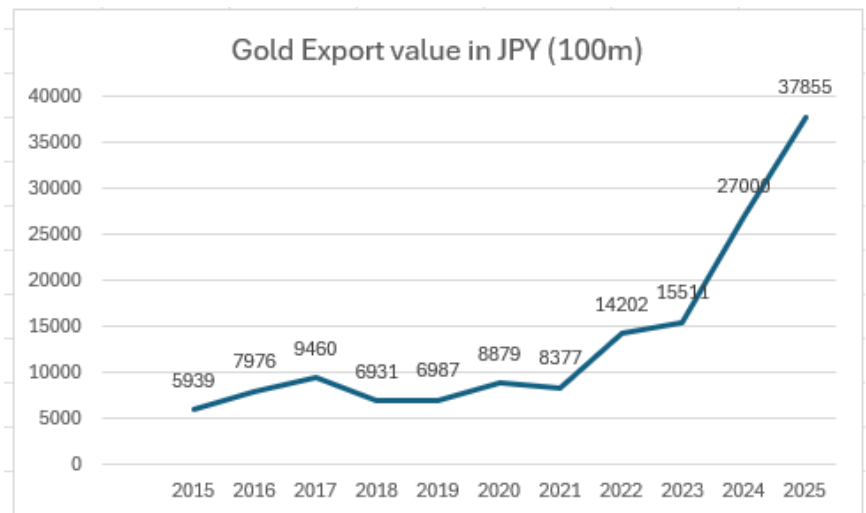
this gold ETF is based on gold stored in Tokyo, the operator must manage the warehouse space and insurance. There may have been available space but the insurance for gold bullion in Tokyo was very close to the limit and warehouse companies are reluctant to receive far more gold bars.

There are tons of gold bars in Tokyo and they are not only ETF's but also those of retailers, smelters, and trading houses. All those golds had to be insured together and with the rise of its value, insurance companies are reluctant to insure the gold above their limit. Since gold came off early 2026 from \$5600 to \$4700, buying spree has somehow quieted down and those problems also seem to have sunk into memory, but it can easily come back up when the investment interest rekindles. Gold industries concerned are working hard now while this breathing space lasts. In addition to physical gold and gold ETF, the OSE futures contracts also commanded huge premium over the theoretical price, skyrocketing more than 1,000 yen/gram at the peak. The buying had surpassed all arbitragers' abilities combined.

The other problem was gold smuggling which increased with the gold price. Last year from Japanese custom statistics, Japan exported 228 tons gold while import was only 10 tons. Japan has only one gold mine, Hishikari mine in Kagoshima prefecture owned by Sumitomo Metal Mining. Yearly production is only 4 tons. Most of the gold and silver productions

come from smelters and recyclers. Smelters import copper, lead and zinc concentrates and from those nonferrous metals concentrates comes gold and silver as a byproduct. Recyclers collect gold scraps from jewelry and e-scraps from all over the industries. Those scraps are quite cost-effective way to recycle gold as gold mines global average of the content per ton is only 1.3 grams, while these scraps are originally determined its much higher gold contents. Those Japanese smelters and recyclers refine 150~200 tons gold a year. As I wrote in the first part, we have seen a huge retail gold investment demand in 2025. Now comes a simple question. Where do all those gold exports come from? Domestic investment demand easily absorbed all the gold from smelters and recyclers, how could Japan export 228 tons gold?

They were illegally smuggled gold. Japan has 10% consumption tax on all the commodities and services including precious metals. When you buy gold, the price is 10% tax included. But as the consumption tax is borne by the one who consumes the goods. So if you sell the goods, in this case gold, your selling price includes 10% tax and the buyer then bears the tax. Most people do not' consume gold and some day they will sell the gold. In that sense, there will be no tax income for the country from gold. There seems to be huge gold smuggling from Hong Kong to Japan. People can buy gold without tax in HK and if they smuggled gold into Japan and sell it here at the price 10% higher than international price. Japan is losing significant amount of tax revenue, and the government has quite serious sense of urgency. Now because of



this smuggling, there are virtually no secondhand gold market in Japan currently. Trading houses and major retail players dare not touch circulated gold bars. They only trade bars directly from refineries or their own bars.

The government and the Japanese gold industry are facing serious problems; we must cooperate further in the coming days. Japanese investors interest in gold has just started last year in my view. We have a long way to go to accommodate with the increasing investment demand. For that purpose, we must make the gold market in Japan perfectly compliant with the law and prevent the smuggling.

