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Gold for the 21st Century | Episode 2
Sunil Kashyap, Managing Director at FinMet Pte Ltd., Singapore

We continue *Gold for the 21st Century* this week with Sunil Kashyap, Managing Director at FinMet Pte Ltd., Singapore. David Greely sits down with Sunil to discuss the role of gold in Asia, what the West can learn from it, and what new market infrastructure and technology can lead to smarter gold markets in Asia for the 21st century.

Sunil Kashyap (00s):
So the old form of going to a jewelry store, going to a bar trader and buying gold, I think is slowly going to die down. I think people are going to look for digital avenues to buy gold and I think that's the biggest transformation you will see in the years to come.

Announcer (14s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building smarter markets be the antidote?
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David Greely (58s):
Welcome back to Gold for the 21st Century on SmarterMarkets. I'm Dave Greeley, chief economist at Abaxx Technologies. Our guest today is Sunil Kashyap, Managing Director at FinMet Pte Limited in Singapore. We will be discussing the role of gold in Asia, what the West can learn from it, and what new market infrastructure and technology can lead to smarter gold markets in Asia for the 21st century. Hello Sunil, welcome back to SmarterMarkets.

Sunil Kashyap (01m 27s):
Nice to be back.

David Greely (01m 28s):
It's good to have you back and I am glad that we are able to catch up with you on the gold market. The last time you were with us on the podcast, we discussed the role of gold in Asia and in this podcast series we are discussing the role of gold in the 21st century. So I thought today it would be interesting for us to blend the two, and I would like to start by asking you, what do you believe the role of gold in Asia and its financial system should be in the 21st century?

Sunil Kashyap (01m 57s):
Thank you, David. Pleasure being back. I must note that last time I was here the gold price had a 2000 number in front of it and now it has a 3000 number. In fact, I think last time we went it had a 1000 number, now it was it's 3000 number. So things have really changed a lot in the last few months. And overall what I would say is that the markets, the general financial markets have become more aware of the position that gold holds in the financial markets and I think what people are finding is something that the Asian people already knew but what the west markets are finding is that there is a legitimate role that gold can play as an asset group and it's more than just physical gold. It's the fact that the gold as a financial asset is something that's taking more of a space in people's investment wallet.

Sunil Kashyap (02m 53s):
And I think that's a trend that is set to continue in 21st century and it's because of the fact that we have seen increased volatility and uncertainty in the world. In fact, right from the year 2000 onwards, we have seen a change in the geopolitics around the world in terms of alliances, in terms of the way that the financial systems work, in terms of technology and all of that has created more uncertainty. And in a world of uncertainty, I think people like to gravitate towards an asset group which is well known, which has a 5,000 year history and that's called, and so I think that's one thing that's quite noticeable for me in terms of a trend is the enhanced position of gold as an asset group.

David Greely (03m 44s):
And it's very interesting, right, because in finance the first thing you learn about is the risk-free asset that everything else anchors. And especially in the US where are used to thinking of that as the US T Bill is the safe asset. But you know, in a world where there is more geopolitical upheaval, more uncertainty about the dollar, certainly you know, gold becomes much more interesting and if you are not in the US it's a more interesting potentially risk-free asset. One of the things you said when we talked the last time that really stuck with me was how gold has much more of a role, almost means a foreign exchange for people in Asia and when we had David Gornall last week, it was interesting because you know, when you talk about gold from a more western perspective, a lot of the conversation still floats around large banks and central banks as the main players. So I was curious, you know, do you think the west has something to learn from Asia in terms of gold being used more at the personal level than say at the level of the big banks in central banks?

Sunil Kashyap (04m 51s):
I think there is two aspects I would talk about. One is subject in terms of why is gold different. You mentioned safe haven. The important reason why gold is a safe haven is that unlike almost every other asset group, gold is not a liability on somebody else's balance sheet and so therefore if you hold T-bills, you are dependent upon the mood of and the credit worthiness of the US government and we know that fluctuates a lot recently especially. So I think what people in the west are beginning to realize something that people in Asia knew all along is that when you have issues with regard to the issuers of certain assets, whether it's equities, bonds or foreign currency, when you have issues with the actual issuer of that asset, then you start getting worried. And the only asset which can provide that safe haven where there is no issuer involved is gold.

Sunil Kashyap (05m 51s):
And I think that's something that's very intuitive for investors in Asia and the reason being because most of the people who live in Asia live in, in developing countries where let's say their local governments can be quite unpredictable and also cannot be relied upon and so therefore gold has always provided that safe haven aspect whereby it's not vulnerable to changes in government policy devaluations or defaults by local governments and I think that's something that Asians know instinctively and that's why they always keep certain part of their investment portfolio in gold. Now that hasn't happened in the west for decades. There has been increasing comfort with issuers, with governments, with government policy and now what we are seeing is that's not the case starting with the Brexit or even before that financial crisis, there has been clear examples where the governments haven't really acted in the best interest of investors.

Sunil Kashyap (06m 59s):
And what is now happening in this increased uncertain environment is people are gravitating towards the same thinking, where do I find an asset which not dependent upon who the issue is and they gravitate towards gold, right? So in the past when you thought about safe haven, like you said, you people say, okay, sell equities, buy bonds. But now what you find is okay, who is the issue of the of the bond, the US government, who is the US government, right and that's becoming clearer to people every day and the US government is not, you know, sort of widely held managed entity. It's actually managed by a small group of people who can change government policy at a whim. Okay that was something that's a huge surprise. People thought there are checks and balances that you can't change policies overnight, but it's happening. So that uncertainty about the actual issuer of the old safe haven, T-bills is creating a problem and that's why people are gravitating towards gold and that's why you have seen gold prices go up so much and continue to go up. So every day when you talk to, when you listen to analysts in the west, right, they say we like gold why because they implicitly they are saying we are not comfortable with T-bills like we used to be. So I think that's where sort of the west and east now are coming towards the same view.

David Greely (08m 20s):
And as they come to the same view, you know, it's interesting in the West, as you said, for decades gold has really existed outside the mainstream financial system in Asia it's probably been somewhat in parallel, but you know much more part of the mainstream. What do you think we need to do in both the west and in Asia to integrate gold more into the mainstream of financial systems and people's asset portfolios?

Sunil Kashyap (08m 53s):
Let's start Asia. The investors are brought up from a very young age knowing that gold is a valid asset group, right. They see their families buying gold, gold is exchanged during weddings, during new year celebrations, during family events. So they see that physical goal being extreme itself. This is a store of value, this is something you need to invest in. So I think that's inbuilt there. I think in the west, the west is driven largely by financial advisors and brokers, right and the commissions they can earn on gold or trading of gold is

so small because the gold market is so efficient that they typically don't recommend gold, right. They prefer bonds or equities where the spreads are better for them and what you are finding now is that they are gravitating towards it because their customers are asking for it, right and there is no other option.

Sunil Kashyap (09m 54s):
And so people are buying gold. What is missing in the west still is it's not easy to buy gold. I mean the only real viable options are the ETFs, right. Physical gold still is not easy to buy unless you are awake late in night and flipping your television and you see these adjectives for gold and even there the markup is like 15%, 20%, right. In Asia, the markup is less than half a percent actually a quarter percent, right. So it's an efficient financial asset to buy even in physical form and it's not efficient in in the west yet. So I think where we, we are going to see is a situation where if consumers in the west can buy and sell at very thin spreads over the physical price, they will be a greater adoption of the product in physical terms.

David Greely (10m 46s):
It's a really amazing difference in the markup that you experience in the physical gold market between the east and the west and the level of integration and I was curious, you know, if you look at the gold market in Asia now and the way it's structured and operates, are there current issues that you see as challenges?

Sunil Kashyap (11m 07s):
Yeah, I wouldn't call them challenges. I think there are a certain constraints and maybe gaps in the market which can be exploited by an entrepreneur who is willing to provide services that the market needs. So what is happening is, like I said, in Asia, the physical aspect of the product is far more pervasive than the financial paper aspect to it and so there is an opportunity for people who have the technology or the will to provide a product which is more digital in nature and we at FinMet also provide such product. So what we do is basically provide a digital platform where customers can buy gold, not in physical terms, but in terms of a digital asset, like a wallet balance, like a bank balance and that encourages people to buy smaller denomination from their houses without having to go out and buy the physical.

David Greely (12m 10s):
There have been a number of attempts over the years to build financial gold markets in Asia and I am curious, Sunil, from your experience, what worked, what hasn't and what do we have to learn from these past efforts?

Sunil Kashyap (12m 24s):
What hasn't worked is taking a contract from the west and try to transplant it into local markets, whether it's a futures contract or it's some kind of a physical contract. I think people in Asia want a closer relationship between the financial asset that's being traded and the physical underlying it. They want fungibility between the two. They want deliverability between the two and so I think that's one of the reasons why it's not worked out. Where it has worked is like I mentioned, where you have created some kind of a digital wallet, which is trades 24 hours a day with very thin margins, is backed by physical and allows somebody to trade in local currency at very small transaction sizes. So because Asia is Asian, economies are smaller, this disposable income is lesser. People in in Asia want to have a products which they can buy or sell in small lots with thin margins and I think that's something that has been successful. There is a lot of people who offer digital wallets across the region and they have been moderately successful more so in countries like China, in Thailand and in India and they have been fledgling attempts in Indonesia, Malaysia also to the same product. So overall the financialization of gold is taking place but in a different way compared to the west.

David Greely (13m 57s):
And we have talked a lot about the use of gold at the personal or retail level. I am curious in Asia, like what does the institutional landscape look like in the gold market?

Sunil Kashyap (14m 09s):
That's a big change that's happened. So what you are seeing right now is a couple of trends. One is at the central bank level there's an increased acceptance from central banks that they need to increase their allocation for gold as a reserve. I think somewhere in the early 2000s many people felt that the value of gold or the position of gold as a reserve asset is declining and people rotated out into financial assets like government bonds and yen or uncertainty of government policy have flipped back into the physical product in terms of gold and so recently we have seen a lot of central banks buying physical gold and actually moving it to their countries. So at the central bank level we are seeing more activity, we are also seeing more activity in terms of family offices, high net worth groups

who are buying physical metal and then storing it in vaults. What we hear anecdotally is that the vaults are getting full up in Singapore or in Hong Kong because there is more physical gold being stored by private investors. So in these two areas I think you see much more activity in terms of the institutional investors, either insurance companies or commercial banks. You don't really see that much. Typically it's because their local mandates or their local regulations don't allow them to hold gold.

David Greely (15m 43s):
And you had mentioned previously that attempts to kind of import a western approach or contract in the past hasn't worked well in Asia and I was curious as well, because you know recently of course we have once again had big regional pricing dislocations with the futures price in New York widening relative to the spot price in London and I'm curious how this divergence has been impacting gold traders and gold markets in Asia.

Sunil Kashyap (16m 13s):
I think it's left people quite perplexed the impact in the market was that the bid offer spreads for gold, which are typically $1 went to $20 and largely it was a function of the fact that liquidity wasn't there. There wasn't good price discovery, which is driven by the fact that the US markets, the future markets as well as the spot gold markets in London had got dislocated and price discovery in Asia depends upon these two markets and since these markets went outta whack, what you started seeing was the Asian markets took quite outta whack. So they said the problem was that you have a buying and selling physical market, but they de depend upon London and New York for their pricing, the price discovery and so you had this great dislocation even in the Asian markets, even though there is no reason to be the number of buyers and sellers were matching, but when they looked at price discovery, they were picking up the bid from the US getting the offer from London and the spread was $20 and so that's something that I think worried a lot of people. There is definitely an intention in the market to create local contracts which are settled locally, denominate in US dollar clearing locally and deliverable in a form which is traded locally, like a kilowatt. So I know that there are people who are looking at something similar for that and I think it's a good time to start looking at locally settled, locally traded contracts for gold so that in the future you don't get that dislocation, which is totally out of control of the Asian markets.

David Greely (17m 49s):
And how important is the kilo bar sizing to trading gold in Asia?

Sunil Kashyap (17m 54s):
That is a standard product for settlement. Kilo bar four nines is a standard product in the Asian markets, just like large part in London or the a hundred ounce part is in in the us And so that is very important. That is a sort of standard product that is exchanged in this market.

David Greely (18m 15s):
And you mentioned at the top of the podcast that when we first talked gold had a one or a two handle on it and now it's got a $3,000 an ounce handle up over 50% and it was not that long ago that we talked, I was curious how are the Asian gold markets responding to this rally and how are they contributing to it?

Sunil Kashyap (18m 34s):
What we have seen is there hasn't been an increased activity like you're seeing the west, I think Asian people have continued to buy gold in increments, so it's like averaging trades at the same time. Whenever they have seen the price run up too fast, they've sold into the rally and sort of taken profits, waited for the price to come down and started buying again. So they have actually been range trading and buying and averaging up their prices over time. So it's the standard Asian way of trading along with the momentum of the gold price without an increased level of activity. It's just been doing what they normally do and they've done for centuries. They've just buying gold in small increments as a base goes up.

David Greely (19m 24s):
And you know, as we have been talking through this sounds like from the demand side you would expect to see kind of continuing and more central bank buying of gold in Asia, more private investor buying of gold in the west. It sounds like a pretty bullish picture. Where do you think this is going in a way?

Sunil Kashyap (19m 44s):
I think it's driven a lot by geopolitics and so you have got to try to read what the geopolitics situation looks like in the coming months. I think most people would agree there is more uncertainty and so it's difficult to see a situation where gold could pull back to a large extent. At this level, you don't really see too many sellers. Everyone is a buyer, right. Sellers are basically producers, one sell their physical production, but I don't see anybody taking profits or closing off their long positions. So unless something changes in the macro picture, I think we are going to continue to steady move up.

David Greely (20m 23s):
And I know you know there has been a lot of talk in the press of the flow of physical gold from Europe into the United States driven by these pricing dislocations. How big a deal is that for the Asian physical markets and the gold markets in general?

Sunil Kashyap (20m 42s):
In terms of there is two kinds of demand in Asia, there's jewelry demand and there is investment demand. Investment demand, like I said, has continued to be quite good at the same pace as we saw, let's say $500 lower, people keep buying steadily. Jewelry demand, however, has come off quite a lot in terms of tonnage. Maybe the dollar spent is the same, but the amount of physical amounts purchase is lower journey demand has been affected, but at the same time I think investment demand has been stronger and so the two have offset each other.

David Greely (21m 17s):
I wanted to thank you for sharing your time with us and your perspectives. I always appreciate getting to talk with you, Sunil, and we will have to keep it up. Before you go though, I was hoping maybe you could wrap up some of what we've been talking about and so my last question for you would be, you know, when you think about the future of gold in Asia, are there key changes that you believe would be the most important in allowing gold to reach its potential reach and to meet the needs of the people and investors in Asia and do you expect to see those changes?

Sunil Kashyap (21m 51s):
What is definitely happening is there is a generational change taking place, right, so people, new generation of investors are coming in, they have more spending power, but more spending power as a group, but it's dispersed amongst many people and those people are technologically more attuned to using phones, et cetera. So the future for those people really depends upon being able to buy gold using your mobile phone. That's the easiest way in which you can sell gold. So the old form of going to a jewelry store, going to a bar trade and buying gold, I think is slowly going to die down. I think people are gonna look for digital avenues to buy gold, and I think that's the biggest transformation you'll see in the years to come.

David Greely (22m 36s):
Thanks again to Sunil Kashyap, Managing Director at FinMet Pte Limited in Singapore. We hope you enjoyed the episode. We will be back next week with another episode of Gold for the 21st Century. We hope you will join us.

Announcer (22m 52s):
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