



上海黄金交易所
SHANGHAI GOLD EXCHANGE

Shanghai Gold Exchange: Development On the Back of Marketization and Internationalization

2018.6



Content



China's Gold Market



Overview of SGE



Overview of SGEI



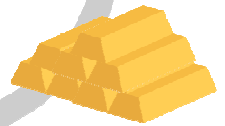
**Impact of Gold Market along
with the "Belt and Road"**



Market Outlook



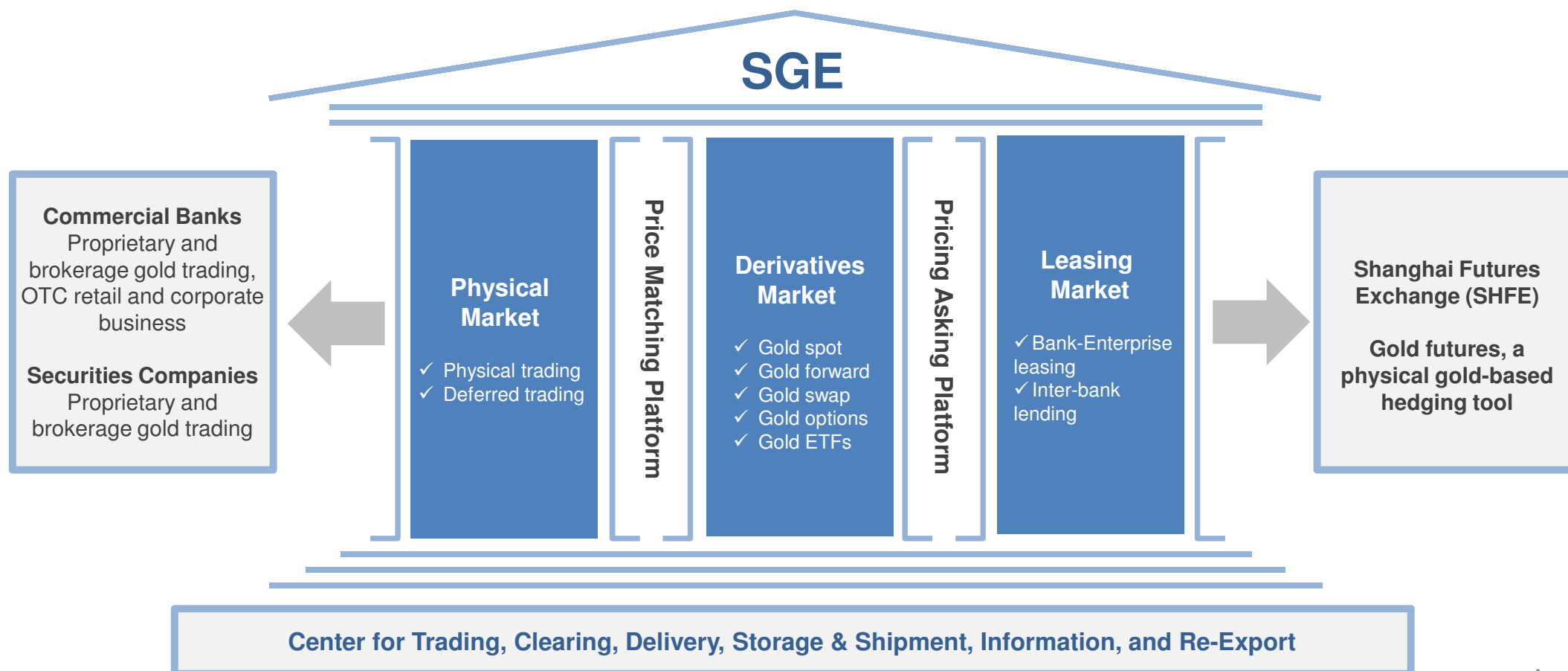
Status Quo of China's Gold Market



Current Market Landscape



With the development of SGE, China now has formed a **multi-tiered, full-featured gold market system**, with the **centralized primary market of SGE** as its **nucleus**, complemented by a competitive **secondary market** and diversified **derivatives market**. SGE has been a **central facilitator** in the development of China's gold market.



■ Market Development Helps Create a Complete Gold Industry



2017



SGE has been the world's largest exchange for physical gold by trading volume for 11 consecutive years.



China has been the world's largest gold producer for 10 consecutive years.



China ranks 1st in the world in gold demand, consumption and imports.

- Gold consumption: **1089.07 MT**
- Gold jewelry demand: **696.5 MT**
- Finished gold products: **571.49 MT**



2017
China





Overview of Shanghai Gold Exchange

Founding of SGE

- In 2001, PBC abolished the **centralized gold purchase and allocation regime**, signaling China's transition toward a **market-based** gold production, consumption, and circulation system.

- In 2002, **PBC established** the Shanghai Gold Exchange upon the State Council's approval. Operating since Oct 30 of the same year, SGE is **China's only national-level, dedicated gold-trading platform**.

Purpose: Promote the restructuring and upgrade of the domestic gold industry; address public's needs for physical gold investment; regulate China's gold investment market.

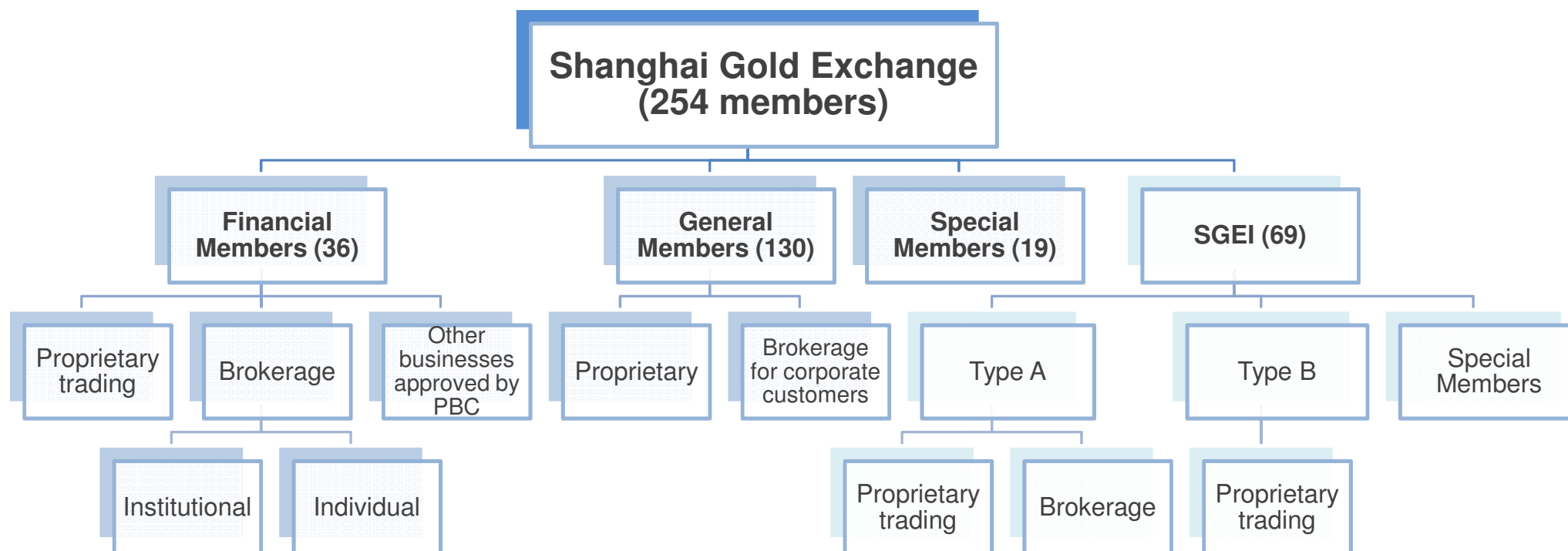
Establishment of SGE has enriched and strengthened China's financial market system; created a market-based system for the production, consumption, and circulation of gold; and marked the opening up of China's gold market.



Membership Structure



SGE is a membership-based organization. Its members are broadly classified into **domestic members** and **international members**. **Domestic members** are further classified into financial, general and special members. **International members**, who may not transfer their trading seats, are further classified into Type A, Type B, and special members. By the end of May 2018, SGE has **254** members.



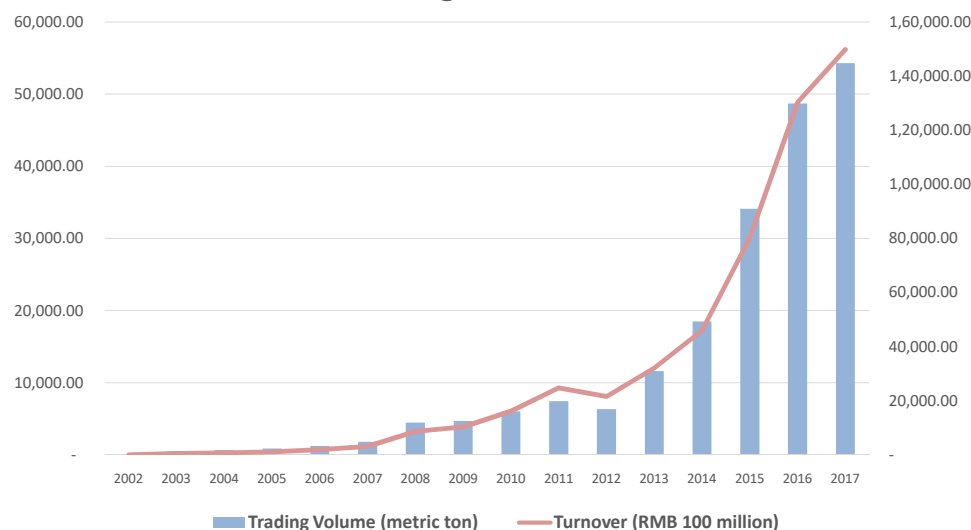


Rapid Growth in Volume and Turnover

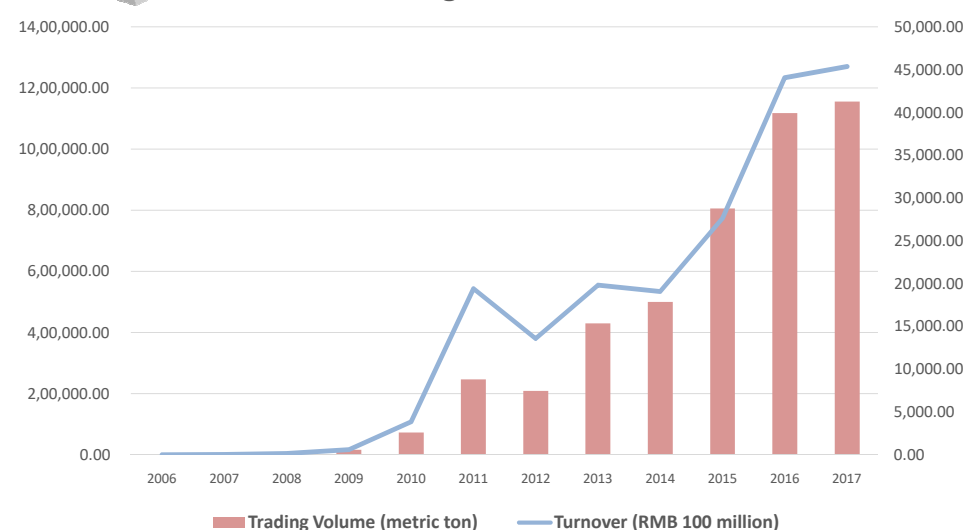


By the end of 2017, SGE had a combined turnover of RMB **19.52 trillion** for all gold, silver, and platinum products, up 11.93% over last year. **Gold** trading reached **54,300 metric tons** (+11.54% YoY), and **RMB 14.98 trillion**, equaling an average daily trading volume of 221 metric tons. **Silver** trading reached **1.16 million metric tons** and **RMB 4.54 trillion**, representing a growth of 3.37% and 2.98%, respectively, over 2016.

 Annual Gold Trading Volume and Turnover at SGE



 Annual Silver Trading Volume and Turnover at SGE

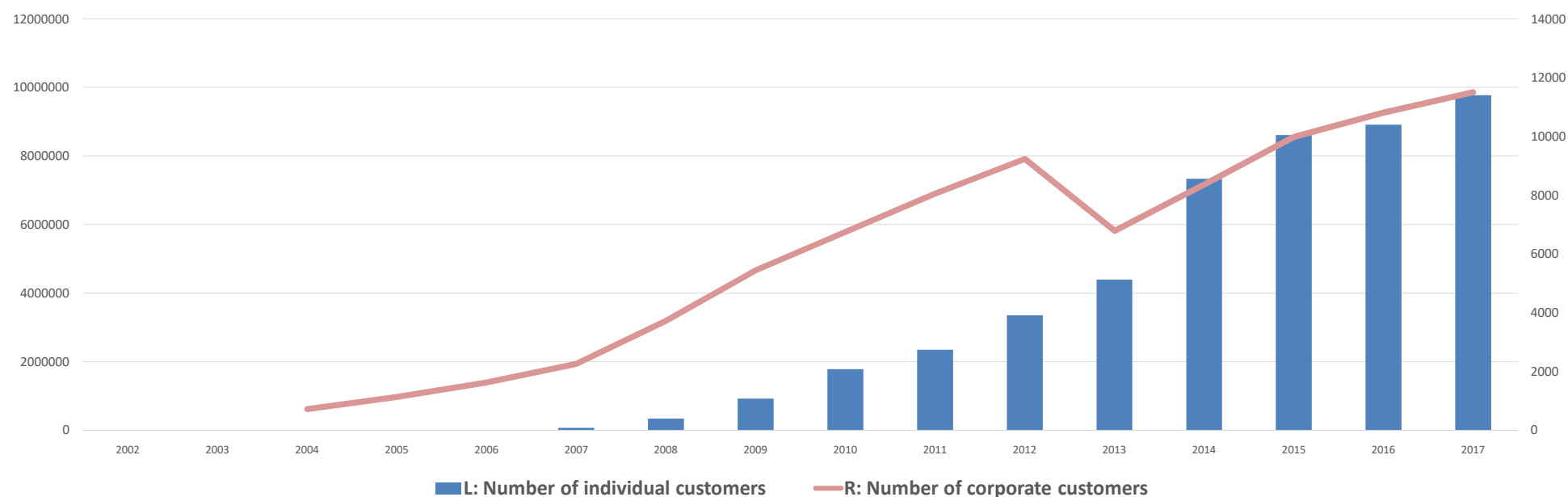


Steady Growth in Investor Base



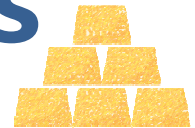
As of 2017, SGE had **11,501** corporate customers and **9.77 million** individual customers, 860,000 more than the number at the end of last year.

Number of Investors Trading on SGE





Overview of SGE International Business



Mission of International Board

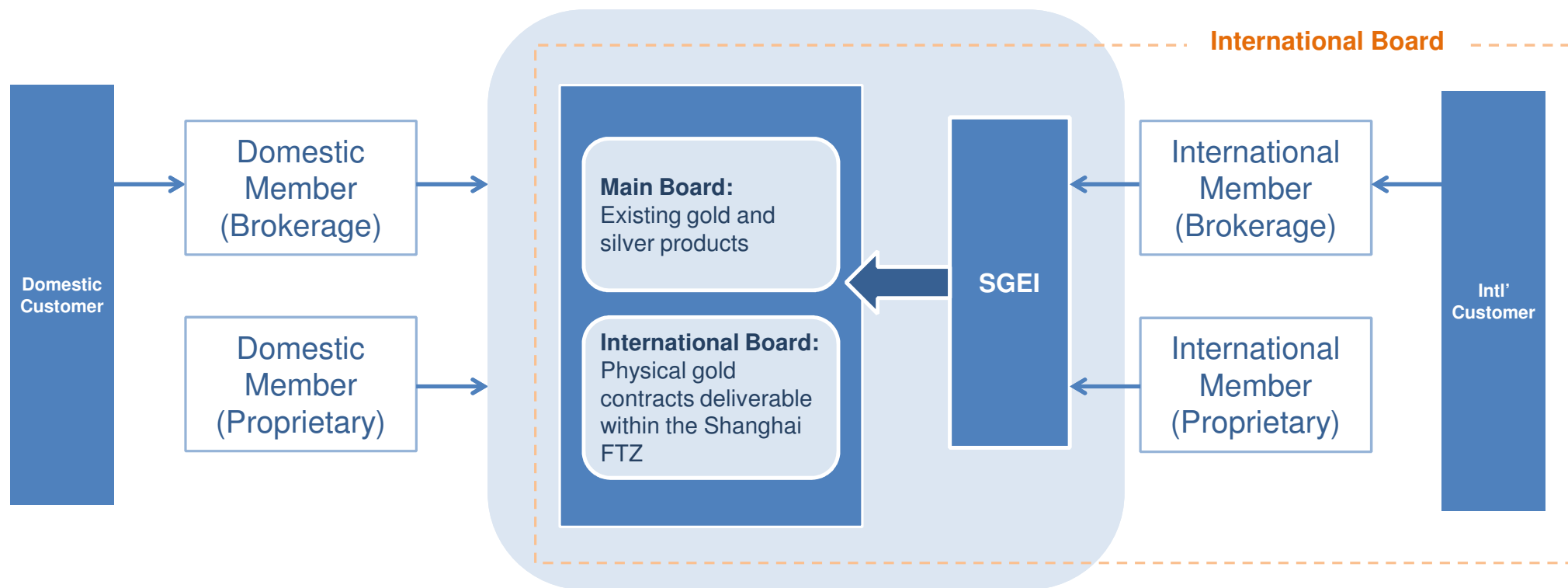
On Sept. 18, 2014, SGE launched the **international board (SGEI)**. It features RMB-denominated contracts and serves as a **gateway** to China's gold market for foreign investors, who may now **directly trades** on the main board market using offshore RMB.



The establishment of its international board is an important measure to impetus the strategy of internationalization of SGE, and a significant window for the open-up policy of China's gold market.

- Global investors can participate and share the fruit of reform of China's gold market.
- To further promote the collaboration of the international and domestic market.
- Optimize the market participants structure to enhance the function of China's gold market
- Assist the internationalization of the RMB, and increase the influence of the RMB in pricing of the global gold market
- Impetus the form of global hub for gold delivery, storage and re-export trade

Trading through International Board

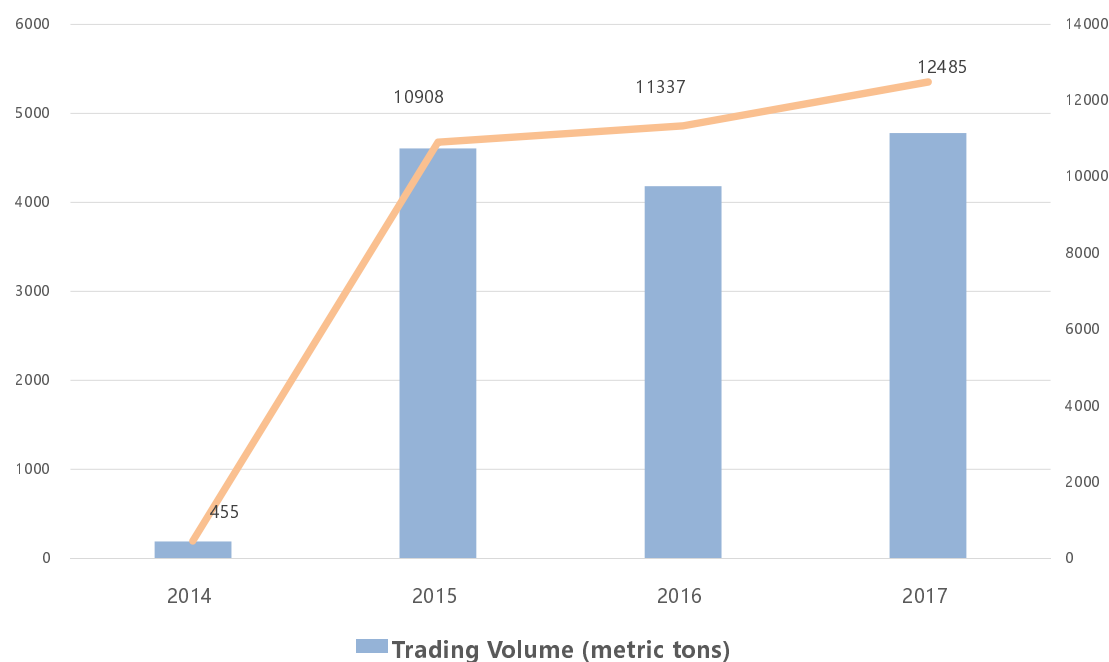


Since its launching in 2014, with the full advantage of the FT account system in Shanghai Free Trade Area, SGEI has steadily promote its innovation in various aspects including **membership management**, **fund clearing**, **bullion delivery**, **risk control**, and **trading system**. SGEI has maintained a good growth momentum with a steady increase in its trading scale, strengthened market function, increased market influence, and has become an increasingly important window for SGE's opening up to the outside world.

2017 Performance

- Total **69 International Members** and **76 International Customers**
- The total turnover, including gold and silver contracts of price matching and price asking and others reached **RMB 1,34 trillion (+21.71% YoY)**. The total trading volume of gold was **4776.98 tons (21.95%YoY)**, of which **1913.4 tons** were traded by international members **(+21.95% YoY)**, accounted for **40.05%** of the total volume of the international board.
- The accumulative volume of gold export directly through the international board accounted **35.4%**, the function of import channel has been expanding continuously.

Historical Gold Trading Volume of International Board



Jan to May, 2018

- The total turnover of the international board reached **RMB 911.69 trillion (+64.69% YoY)**. The trading volume of gold was **3296.40 metric tons (+64.28% YoY)**.
- Total volume of gold trading by international members were **580.41 metric tons**, accounted for **17.61%** of the total volume of SGEI.



Shanghai Gold Benchmark price trading system, an electronic trading platform designed and developed by SGE based on current trading system, provides investors a new trading channel in gold market.



Shanghai Gold Benchmark Price, generated through multiple rounds of auction conducted on the SGE platform, is a price at which the market's announced buy volume and sell volume reach a relative balance for the given point in time.

Underlying: 1 kg, 999.9 fine standard gold ingots.

Quotation Unit: RMB/gram

Application of Shanghai Gold Benchmark Price

- Providing industrial gold producers and consumers with an executable settlement price for their production, trade and processing activities

Pricing needs of industrial enterprises

Support the pricing of derivatives

- Providing a settlement price for domestic and international gold derivatives to boost market development

- Providing commercial banks with an RMB clearing and settlement price in connection with their gold imports

Settlement of gold import price

Basis for appraising the value of physical gold in gold leasing

- Providing a basis for appraising the value of physical gold in gold leasing transactions

■ Trading Volume of Shanghai Gold Benchmark Price



- The performance of Shanghai Gold Benchmark Price went well. The accumulative trading volume was **1,262.74 metric tons in 2017**, with the accumulative turnover of **RMB 3475.53 billion**. Trading volume from **Jan to May, 2018** reached **696.41 metric tons**, with turnover of **RMB 189.43 billion**
- On Mar 10, 2017, DGCX Shanghai Gold Futures was **officially listed** in DGCX and had received warm responses in the global market. The recognition and competitiveness of its brand image has been gradually increasing in the foreign markets.



- Many commercial banks have been adopting the benchmark price as the **calculating basis for price of the gold leasing contract**;
- Partial banks have issued **gold derivative products** based on the benchmark price, such as the **gold accumulation and gold options**;
- Partial of the security traders has introduced **financial products** underlying the benchmark price, and **manage their positions** through the trading platform for Benchmark price by SGE.



■ Actively Explore New Models of Cross-Market Cooperation



In 2017, SGE further enhanced the communication with the global market. The SGE delegation participated in many global conferences to promote China's gold market, including United States, Canada, Spain, Switzerland, Myanmar, Thailand, and Australia.



Accelerating the pace of cross-market cooperation, to gain overlay advantages, and to achieve mutual benefits and win-win results. Promoting cooperation with HKEx, DGCX, MOEX, Deutsche Börse, and other overseas exchanges to conduct business communications at various levels.



Established partnership with Budapest Stock Exchange as one of SGE's measurements to implement the "Belt and Road" initiative, to promote the internationalization progress of China's gold market, and to promote the cooperation in gold markets between China and Belt and Road countries.



■ Impact of the Gold Market along with the “Belt and Road”

It is of great significance to further strengthen investment and financing activities, as well as trade cooperation in gold markets along the “Belt and Road”; so as to accelerate the coordinated development of the regional gold industry, and to accord with the mutual needs of both China and countries along the “Belt and Road”, promoting the coordinated development in China, and to fasten the interconnection between China and the rest country in the region, to jointly build the road to achieve mutual benefits and win-win result.



Facilitate Belt and Road Countries’ strategies of increasing official gold reserve

Accelerate the integration of the gold markets in the region, strengthen the mutual cooperation based on gold, and complete the re-export function in China’s gold market; to provide a convenient channel for gold purchase by center banks along the Belt and Road, and assist the implementation to the strategy of increase its official gold holding

Expanding national trade radiation circle

Combine the active need of gold in the region to accelerate the cooperation of gold trade, which will be a good opportunity to expand the business relationship between China and other countries in the region.

Explore new models for industrial cooperation in the resource industry

With the strategic from work of “Belt and Road” to deepen the cooperation in the region of mining industry including gold and other precious metals between China and countries. Take the advantage of complementarity of resources and technology, to transfer the resource advantage into valuable economic resource for countries along the “Belt and Road”; and assist to achieve the win-win solution.



Further promote China's financial market

- Continue the cooperation and innovation in the gold market with countries along the Belt and Road, to further release the signal of China's open-up policy, and help shore up confidence of China's financial market in global.
- Further strengthen the integration of financial markets in both domestic and international through cooperation, to satisfy the needs of investors from both locations. Enhance the accumulative effect in the market for RMB priced gold, to increase the influence of RMB pricing in the gold market, and to promote the process of RMB internationalization.

Satisfy the strong need for cooperation and development along the Belt and Road

- High enthusiasm for participating in China's gold market, strong impetus by governments.
- Intention for gold re-export through SGEI expresses by partial central banks and gold users in the region.
- Steady progress of the industrial cooperation. SGE has cooperation on gold resource exploration and product marketing with its members and relevant state owned gold users along the Belt and Road.



Innovative model of cross market cooperation, creating multiple advantages to achieve mutual benefit and win-win result

- Established partnership with Budapest Stock Exchange as one of SGE's measurements to implement the "Belt and Road" initiative, to promote the internationalization progress of China's gold market, and to promote the cooperation in gold markets between China and Belt and Road countries.
- SGE has signed strategic cooperation agreement with 7 provinces, cities, and autonomous regions along the "Belt and Road" area in China.
- Accelerate in cross market cooperation, promote the collaboration between foreign exchanges including MOEX and Deutsche Börse, to further enhance the business interaction on a multi-layer basis.



Enhance market promotion to increase the recognition and influence of SGE in the global market

- In 2017, SGE further enhanced the communication with the global market. The SGE delegation participated in many global conferences, including United States, Canada, Spain, Switzerland, Myanmar, Thailand, and Australia, for the purpose of promoting China's gold market.



Market Outlook



The Asian Market, A Major Engine in the Future Global Market



■ According to the World Gold Council (WGC):

Global gold demand grew by nearly **50%** over the past decade

Asian gold demand grew by nearly **250%** over the same period



In the past two years, gold consumption in Belt and Road countries – especially those in **Asia** – has been on the rise, accounting for **more than 80%** of the world's gold consumption. This trend is expected to continue in the coming years because of increasing wealth, making Asian Belt and Road countries **major consumers** in the global gold market.



As the world's **largest gold producer** and a **major gold jewelry producer**, **China** has a highly developed gold jewelry processing and manufacturing industry.



Belt and Road countries have abundant mineral resources and are also **major gold consumers**.



Due to their **geographical proximity** and existing cooperation programs, China and Belt and Road countries have **a solid basis and strong potential** for strengthening **cooperation and interconnectivity** in gold trade, investment, financing and expanding their **gold market cooperation**.

SGE's Strategies:

- 1** **Overall objective:** Making SGE into a world-class comprehensive gold exchange
- 2** **Development strategy:** Market-oriented improvements and internationalization
- 3** Promoting the “**Shanghai Gold – People’s Gold**” brand



Under the framework of the “**Belt and Road**” initiative, develop in coordination with **Belt and Road markets**, explore **cross-border cooperation**, introduce and promote **Chinese Standard** to the global precious market.



Continue to expand the features of the international board, **improve** the services of the international board market, **strengthen** product innovation, **explore** the establishment of more overseas delivery facilities, and **better serve** the diversified needs of international investors.



Continue to improve the Shanghai Gold pricing mechanism, **develop more** applications and derivative products based on Shanghai Gold, **enhance** the role of Shanghai Gold Benchmark Price in price discovery, and **provide** a wider range of market risk management instruments.



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Thanks !