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3rd May 2016

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A Chinese Revolution in Gold & Silver Markets in Shanghai – Yijintong!

The Yuan Gold Fix

Is now established and running effectively. It provides two daily Benchmark prices before London opens.

To date it has blended China's gold price to London and New York, seamlessly. To date China has not appeared on the global gold price scene despite it being the largest buyer of gold in the world.

With the Gold Fix in Yuan now a reality Chinese prices are well known now. [We report these in our Daily Gold Report, 'Gold & Silver Market Morning' - **To get daily market reports or to subscribe, send your email address to us at: julian.smaugt1@gmail.com** and we will add you to our mailing list]

The arrival of the Yuan Gold Fix on the world scene heralds a new era in global gold markets, that is changing the gold world structurally. It includes foreign members as well, so when the exports of gold from China are eventually permitted [if indeed they will be?] they will ensure that future prices are a global representation of supply and demand.

At the moment they are reflecting these because of the presence of the ICBC in London's gold market and LBMA price setting membership.

There are twelve fixing members (including two foreign banks): the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, Shanghai Pudong Development Bank, China Minsheng Bank, Industrial Bank, Ping An Bank, Bank of Shanghai, Standard Chartered Bank (China) and the Australia and New Zealand Bank (China). Another six companies take part in the benchmark as reference price members: China National Gold Group Corp, Shangdong Gold Group, Shanghai Lao Feng Xiang, Chow Tai Fook, Bank of China (Hong Kong) Ltd and MKS (Switzerland) SA.

The SGE Gold Fix auctions use the exchange code SHAU, and run on the electronic SGE trading platform using a 'centralized pricing trading' auction model. The auction is for physically-delivered 1 kg lots of 99.99% purity gold or higher, quoted in RMB per gram, with a tick size of RMB 0.01. Delivery is in the form of 1kg standard gold ingots of fineness 999.9 or higher at SGE certified vaults.

For the SGE Gold Fix, standard gold is either gold from an SGE approved refinery, or gold from a LBMA approved refinery. Settlement / Delivery is two days after trade date i.e. T + 2.

At this juncture it is important to emphasize that the Shanghai Gold Benchmark Price is a centrally cleared auction on the largest physical gold exchange in the world, which delivers real physical gold bars at any of the SGE's 55 certified vaults.

Shanghai Gold Exchange uses 55 certified vaults across 36 Chinese cities for gold storage. Unlike the LBMA Gold Price auction which just settles and clears its trades as unallocated gold that merely exists as a book-keeping entry in the database tables of the LPMCL's AURUM system.

The objective of the SGE Gold Fix auction is to arrive at a 'Benchmark Price', which is a price at which supply and demand reach a balance, while allowing a certain imbalance (less than 400 kgs) to remain. The overall auction concept is therefore similar to the LBMA Gold Price auctions in London.

Global revolution

China can now control the gold price in line with the objectives of the PBoC. Through the ICBC being a clearing Member of the London Bullion Market Association, the SGE provides a two-way market making operation, in London, that allows China to exert this control.

Bear in mind that the ICBC will only be able to sell gold, in London, from its own stocks held in its vault [previously Deutsche Bank's] which has a 1,500 tonne capacity. It will not be able to bring stocks from its holdings in China, as exports from China are not permitted. The bank has built up stocks with which to do this in London.

The prime objective remains that China, through the ICBC and the SGE will bring into being such a level of [one-way] arbitrage business as to ensure gold prices on a 24-hour basis, globally.

Through the developments of the last few years, the Shanghai Gold Exchange is now perhaps the most liquid of physical gold markets in the world.

Because the SGE is a physical market not a 'paper' gold market, so it is more likely that prices reflect true physical demand and supply in their gold prices.

Effectively, the SGE will now be able to control global gold prices.

“Yijintong”

Currently the SGE has almost 10,000 institutional and over 8.3 million individual clients. Up until November 2015, the Gold Exchange counted 246 members globally, 183 domestic members and 63 international members.

In 2015 2,596 tonnes of gold were withdrawn from the SGE vaults [in comparison 2,860 tonnes were mined globally. This makes the SGE the only significant gold market in China. It is under the total control of the People’s Bank of China. Should the day come, and we believe it will, when there is a need to confiscate gold in order to add confidence to the Yuan internationally, the PBoC can do it in a day and ensure that there is no other gold market in China, with the vast bulk of Chinese gold outside the SGE forced to hand their gold back into the SGE, where it can be held in their name, but under the control of the SGE.

“Yijintong” has comprehensive functions and advanced systems, which are compatible with various Android and iOS operating systems. Right now, it possesses market, transaction, search and information functions, so investors can conduct transactions via mobile phones after opening their accounts online.

Yijintong can also enable account opening functions. New users can establish Shanghai Gold Exchange’s “Gold Account” business on their mobile phones directly, and avoid buying their gold from gold stores and banks. Hence such a function integrates the retail market to this ‘professional’ market in the case of individual investment buyers. This could lead to a fall in retail demand as it shifts to the SGE. As such retail demand figures on their own are insufficient to measure Chinese gold demand.

It is the first professional mobile terminal of state-level gold market of its kind in the world. It cuts out all the bulk of the retail market’s structure and give much tighter spreads to the individual buyer.

Download: iOS and Android mobile phone users can scan the QR code and open it in the browser to download and install directly.



The rise and expansion of the global influence of the Shanghai Gold Exchange has been poorly reported to date. Consequently, an exchange that will rule global gold prices has developed and arrived with scant attention being given to it.

It will lessen the influence of COMEX on gold prices, which have, in the last few years, dominated the gold price despite the small volumes of physical gold being traded through it.

Certainly, gold producers and physical buyers will refer to the Yuan Gold Price setting should there be a divergence of Shanghai prices and London and COMEX. The prices on COMEX are likely to follow those of the SGE over time. Likewise, London prices! We see this as inevitable, particularly because of the huge volumes of physical gold that have been moving out of London and New York to the East. We expect this trend to continue.

Just as Goldman Sachs has had to 'stop out' its gold shorts because of rising gold prices [bear in mind that Goldman Sachs and clients were instrumental in forcing gold prices down in April 2013] so the influence of the big New York banks and those in the London Bullion market will diminish because the drain of liquidity from the west will continue.

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