JP Morgan

Precious Metals House of the Year, Asia

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Energy Risk's Precious Metals House of the Year, Asia has been awarded to JP Morgan for the strides made in building up its Asian precious metals business during a tumultuous period for global markets, not least of which was the pioneering step of opening a gold vault in Singapore in September 2010.

JP Morgan's global metals group has more than 30 years' experience and, despite a difficult year, still managed to provide much-needed liquidity in the precious metals market. The bank strengthened its physical capabilities with the acquisition of RBS Sempra's commodities business, which was completed in July.

The outstanding development of the year beyond merely building out other aspects of its business was the forward-looking move to open a gold vault in the FreePort area of Singapore, a first for global banks in the Asia-Pacific region. The nascent Singapore Mercantile Exchange's gold futures contract will be physically backed by gold held in JP Morgan's vault. As such, JP Morgan is leading the way for precious metals development in the region by setting up an integrated precious metals trading and vaulting platform in Asia.

"This is a consolidating step for us having a direct exposure to the physical gold market in Asia," says Tim Wilson, managing director and head of Asia marketing of global commodities at JP Morgan. "We have traditionally handled that out of London but in the middle of September when we officially open the vault, a lot of that capability and servicing of Asian clients will be handled out of Singapore."

The idea for the vault was first suggested in 2008 and, after considerable market research concluded the vault would be well received, the search for a suitable location ended with the choice to use part of the FreePort facility next to Changi airport.

Several factors led to the decision, two of which were highlighted by the financial crisis, says Oral Dawe, managing director and head of Asia commodities.

"Gold has been a very topical subject for investment in the last few years, particularly during the financial crisis when there was a flight to safety," he says. "Asia has been a large part of the investment in gold and it is well known that a lot of Asian cultures in general have a close affinity to gold for a variety of reasons.

"Maybe in part related to the financial crisis, what we have seen is that clients have become much more sensitive to concentration risk. No matter how much you trust any one place, it's good to diversify a little bit," says Dawe. "Having a vault in a trusted place in this part of the world gives diversification opportunities that wouldn't have existed before and our global clients have a higher premium on that today than they would have three or four years ago."

In addition, as markets develop in Asia, it makes logistical sense to have a base set up in the region.

"If you look at where gold is produced and consumed, it is produced largely in the southern hemisphere and traditionally shipped into Europe and then back out to Asia," says Wilson. "What we're doing is effectively by-passing that triangular shipping route and allowing, for example, the Australian gold-producing industry to deliver straight into its place of maximum consumption into Asia. Of course, China is also now the largest gold-producing nation in the world, having overtaken South Africa a couple of years ago."

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>
> *Tim Wilson, JP Morgan*

This is the first major step for the bank in rolling out its strategy to create a hub in Singapore for precious metals to rival those in London and New York.

"What we ultimately envisage is the development of a more mature, liquid Asian gold market. We will continue to facilitate as market-makers in the region and encourage other market counterparties to facilitate that," says Wilson. "Through numerous organisations, including the London gold market organisations, we are promoting Asia as an alternative gold market destination, much like London and New York – this is what we expect Singapore will become." ■

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