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# Hong Kong's Gold Play: A Wake-Up Call for Singapore?

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In his third national policy address to Hong Kong in October 2024, Chief Executive John Lee Ka-Chiu stated that “Hong Kong must build up global gold trade amid stiff competition from Singapore, build an international gold trading market and develop world-class gold storage facilities”.

The next day, in a follow up interview with the South China Morning Post, the chief executive stated, “Hong Kong must move quickly to regain a strong position as a gold trading centre, which could be a ‘game-changer’ for the economy.”

These are unexpectedly powerful words to describe precious metals, which have been dismissed by much of the financial community as little more than “barbarous relics” over the past forty years.

To understand the logic behind such optimism, it is best to start with LCQ13 – Building International gold trading market, a press release of the Hong Kong Legislative Council dated November 6, 2024.

LCQ13 provides policy details directly from the Acting Secretary for Financial Services and the Treasury, Joseph Chan, as presented in the Hong Kong Legislative Council.



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## The following points are particularly insightful:

1. **The driver behind these policies appears to be:** “a resolution adopted by the Third Plenary Session of the 20th Central Committee of the Communist Party of China.”
2. **The rationale:** “Gold serves as a crucial anchor in the precious metals category, possessing multiple attributes as a commodity, a reserve asset, and an investment product. Under increasing global political and economic uncertainties, gold is one of the key hedging tools. With the geopolitical environment becoming more complex and some regional situations remaining unclear, it is expected that global demand for gold will remain substantial.”
3. **Infrastructure improvements:** “As the first step, the Government will focus on the development of world-class gold storage facilities, thereby attracting more investors and users from different economies, including the Middle East and Southeast Asia, to store gold in Hong Kong.”
4. **Ecosystem establishment:** “Based on increased storage, we expect to scale up associated support services in insurance, testing and certification, logistics, etc, while in parallel expanding related transactions including collateral, loan and hedging, hence creating a comprehensive ecosystem in a progressive manner.”
5. **Integration:** “This will drive all-round multi-currency trading, clearing and delivery, as well as the development of the regulatory system (covering transactions using offshore Renminbi), thereby establishing a holistic gold trading centre with an industry chain. We will also as appropriate explore with the Mainland institutions (including financial regulators) mutual access with the Mainland financial market.”

To implement these policies, the Hong Kong Financial Services and the Treasury Bureau formed a multidisciplinary working group, whose members were finalised on December 18, 2024. This working group will cover “gold supply and demand, product development, application of standards, clearing mechanism, logistics and storage, testing and certification, talent training, cross-boundary collaboration, etc”.

## Gold’s new role in the Age of Turbulence

In my opinion, this press release has all the elements, although not the explicitly stated aim, to develop Hong Kong into a powerful sovereign gold hub.

### Sovereign gold hubs require three mutually symbiotic components:

1. **Vaulting and logistics infrastructures (The Foundation):** Efficient, secure, and presentable vaults, testing labs and related supporting services are needed to reassure depositors. Hong Kong currently does not have custom-built facilities and relies mostly on a warehouse near the airport. Given Hong Kong’s stated policy to “catch up to Singapore”, it will probably be a matter of time before more impressive, and costly, facilities are established. This poses the question as to why the Central Committee of the Communist Party is championing such efforts, as costs could not be recovered by simply attracting a bit more of the notoriously low-margin gold trading business to Hong Kong.
2. **Jurisdictional confidence (The Reassurance):** Given the rather worrying interventions in the Hong Kong legal framework by Mainland China and the increasing geopolitical tension between China and the United States, it is unlikely that Westerns institutions or clients will entrust significant amounts of gold to Hong Kong in the near future. It would, therefore, be safe to assume that the ultimate target market for these efforts will be neither Westerners nor Mainland Chinese nationals (gold being tightly regulated in China). Hong Kong’s long-term target is likely the rest of the world, with BRICS member and partner countries being increasingly concerned about politically motivated US sanctions, as the primary target market. In particular, sovereign entities might want to relocate from London due to increasing geopolitical concerns.
3. **Gold-based financial ecosystem (The Utility):** Ultimately a gold hub’s success is largely defined by the utility that gold depositors can expect from vaulting physical precious metals there. As of early 2025, London has nearly US\$45 billion worth of daily gold liquidity and vaults over 8,000 tonnes of gold, providing very liquid markets and low vaulting fees. While the United Kingdom has sold most of its own gold reserves, it does have

a supportive tax regime for bullion and has even exempted gold, silver and platinum Britannia coins from capital gains taxes. London's high liquidity and low vaulting fees have attracted many central banks to store a sizable portion of their national gold reserves there. For Hong Kong or Singapore to become jurisdictions competing with London, they would need to provide enough utility to offset London's advantages to certain target markets. The Hong Kong government appears to be executing on a credible plan to develop such a utility, while Singapore currently does not.

### **The sovereign gold hub concept – a promising path**

Challenging London's dominance requires the provision of attractive services that are not currently well-established in London. A standardised gold collateralisation (not repo transactions) whereby the gold owner retains ownership but has a lien placed on the gold on behalf of the lender would be a very attractive service for sovereign entities. I have some experience implementing such systems, having built such a small-scale platform that nonetheless processed around 21,000 loans for quantum of US\$700 million over the past decade.

Instead of gold collateralised loans, London banks tend to favour sale-and-repurchase agreements (repos) but sovereign entities are unlikely to use these as it involves legally selling their national gold reserves.

In this context Hong Kong's declared plan on "establishing a holistic gold trading centre ... while expanding related transactions including collateral, loan and hedging, hence creating a comprehensive [precious metals] ecosystem" appears to have reached a similar conclusion.

In the coming years I expect that Hong Kong will try to attract sovereign entities, hypothetically Brazil, to move a portion of their gold reserves to Hong Kong. Once authenticated as genuine and stored in Hong Kong, these reserves would then act as nearly risk-free collateral to lenders in both Hong Kong and the rest of the world. The gold, being intrinsically valuable and in

a jurisdiction trusted by the lender, would effectively remove the borrower's sovereign risk premium, enabling lower-cost financing for the borrower and thereby creating greater utility for gold stored in Hong Kong.

Hypothetically, if the Central Bank of Brazil's cost of borrowing in USD is 8%, then Brazilian-owned gold (e.g. US\$1 billion) stored in Hong Kong could be reasonably collateralised at 5%, saving Brazil US\$30 million in sovereign interest payments per year. It is reasonable to assume that such utility, along with larger geopolitical drivers, will eventually drive substantial amounts of sovereign gold to Hong Kong.

Once a minimum amount of such standardised gold bonds is created, Hong Kong could list such bonds to be traded on its secondary markets, creating a new kind of gold-backed bond that should fare well compared to traditional unbacked sovereign bonds, given our age of geopolitical turbulence.

## **SINGAPORE'S POSSIBLE BIG OPPORTUNITY**

As highlighted by Hong Kong's chief executive, Singapore already has better vaulting infrastructure and being wealthy, neutral, and trusted, the country is perfectly positioned to become a geopolitically relevant sovereign gold hub as well as a critical bridge between East and West.

However, despite the IPM insertion on the GST Act in 2012, Singapore taxation policies still consider investment precious metals (IPM) as a commodity that ought to be ultimately exported, not vaulted. The resulting de-facto taxation is disadvantaging local vaults and refiners and is sending a mixed message on whether such sovereign gold hub plans would find support in Singapore.

I am hopeful that Singapore will also create a multi-disciplinary working group to look into the Singapore's future gold hub plans.

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