

# Banking on gold coming

With the rising demand for gold as safe haven investing in the Middle East, the World Gold Council is taking a number of steps to make it easier for investors to access this precious metal. **Tarub Huleisy** finds out how investors could start saving and investing in gold very soon through normal banking channels.

**T**he World Gold Council (WGC) is in talks with a leading international bank in the UAE to offer gold as an investment to residents in the country. The disclosure of these developments comes on the back of the successful launch of Dubai Gold Securities (DGS) on Nasdaq Dubai earlier this year.

Anan Fakhreddin, the WGC's managing director for the Middle East and Turkey, said that the Middle East is witnessing a strong surge in investor demand for the yellow metal. In the past, the region was primarily known for its love of jewellery, and hence more than 90 per cent of the demand for gold came from jewellery. However, with the onset of the financial crisis, the region has seen a spurt in demand for gold as investment, which in turn has led the WGC to come up with ideas to support this demand.

Fakhreddin disclosed that the WGC is currently developing two gold-backed investment programmes with a leading international bank in the UAE. The first programme entails selling gold coins through the distribution network of the bank, while the second programme, being developed with the same bank, will involve a golden bank account.

The WGC is well advanced in executing the first programme. Fakhreddin said that the WGC expects that through this programme, three tonnes of gold will be sold in the UAE in the first year. The target is to launch this programme by the last quarter of the year.

As for the second programme, Fakhreddin said that it will entail a mechanism that will allow investors to open a special account with the international bank. The cash in that account will be used to purchase gold, which will be deposited in a golden account. The deposited gold in that account can be liquidated at any point against cash at the prevailing market rates. In that way, for investors, gold investments will be as liquid as cash.

The WGC is aiming to launch the golden account investment programme sometime in the first quarter of 2010.

Fakhreddin said: "We found out that the demand for gold from investors in the Middle East rose with the onset of the financial crisis. In fact, gold was the most popular asset during the crisis, even as investors lost interest in other commodities and equities. The two programmes that we are working on will address some of the needs of gold investors in the region."

Total gold sales in the Middle East rose more than 48 per cent in the second quarter of 2009 over the previous quarter to US\$4.15 billion. First quarter sales of gold in the Middle East totalled US\$2.8 billion.

Sales in the UAE also saw a market increase in the second quarter. WGC figures show that gold sales rose over 13 per cent in the second quarter in the UAE to US\$932 million, compared to US\$824.6 million in the first quarter of 2009.

Gold averaged US\$871.96 per troy ounce in 2008, up from US\$695.39 in 2007 and US\$603.46 the year before. In 2009, gold has already touched the US\$1000 mark. There are various estimations of how the yellow metal will end the year, although most believe that it will average a higher price in 2009 over 2008 as the US dollar continues to weaken, primarily due to the large deficit in that economy.



The volatility of the currency market and some of the traditional asset classes has seen Middle Eastern investors also moving towards safe haven investing in gold.

Fakhreddin said that the investment component in gold sales in the Middle East had gone up to 57 tonnes in the quarter ending on June 30. This is a phenomenal increase compared to just four tonnes in the same period of the previous year.

The launch of DGS – an initiative of the WGC and the Dubai Multi Commodities Centre – earlier this year is also helping the cause. The securities began trading on Nasdaq Dubai last March. They also represented the first exchange-traded commodity (ETC) to list on

the exchange and the first Shari'ah-compliant gold ETC in the region.

DGS have already achieved a volume of US\$3.65 million thus far.

Fakhreddin said that it is still too early to judge the success of DGS, despite the very encouraging response the product has received from investors. He felt that the product had tremendous potential going forward. Asked if there would be similar initiatives from the WGC in other regional markets, the managing director replied that a decision in that regard is yet to be made.

Fakhreddin added that the WGC will analyse the performance of DGS and take a decision by the end of the first half of 2010 regarding whether to launch similar gold-backed securities in other regional markets.

"In the longer run, we are firmly committed to launching a number of products for investors in the region. We are also aware of the need for Shari'ah-compliant investment products in this part of the world and we are committed to launching them in the future," he said.

Fakhreddin said that the WGC is working on various programmes at this time to promote gold sales in the region. There are plans of launching new brands in the region working with existing brand owners. There are also new ideas being put in place for supporting the jewellery trade in the region, while developing new marketing opportunities in such segments as weddings and festivals.

