

China's Demand for Gold Rises

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China's gold jewelry and investment demand could double in the next decade even as the country's mining output declines, according to a World Gold Council report.

"Our analysis shows that if gold demand were to continue to increase so markedly, domestic supply would be unable to keep pace," Eily Ong, investment research manager at the World Gold Council and author of the report, said Monday. "Whatever the outcome, China's outlook will almost certainly have implications for the global market."

China is the second-largest buyer of gold in the world behind India, with consumption valued at \$14 billion in 2009. Consumption could rise to \$29 billion at end-of-2009 prices within the next decade, according to the report. The World Gold Council is an organization funded by gold-mining companies with the goal of stimulating demand for gold.

Spot gold reached an all-time intraday high above \$1,225 a troy ounce Dec. 3, more than 60% higher than its year-earlier level. In Monday morning trade in New York, the yellow metal traded at \$1,109.70/oz.

If China were to approve gold exchange-traded funds, demand would increase even more sharply, said Albert Cheng, the council's Asia managing director.

"The doubled demand doesn't count demand from institutional investors," Mr. Cheng said, because "China doesn't have institutional investors in gold."

China's growing middle class is driving demand, said Juan Carlos Artigas, another investment research manager at the World Gold Council. Roughly 80% of the Chinese gold demand is for jewelry. China was the only country to post an increase in jewelry demand last year, when consumption fell in other nations amid high gold prices and global economic weakness.

Furthermore, China's gold market isn't yet "as mature" as in other countries since deregulation allowing gold to be bought freely didn't occur until 2001, Mr. Artigas said. "Therefore, it has potential to grow."

China's 2009 mine output of about 314 tons didn't match jewelry and investment demand of 423 tons, according to the report.

China increased gold-mining output by 84% over the past decade to become the world's largest producer, but it only has 4% of known global reserves, according to the U.S. Geological Survey.

"This suggests China would exhaust its known gold reserves in about six years if they were mining at the same rate as they are mining now," Mr. Artigas said.

China's removal of gold exploration from a catalogue of foreign investment sectors in 2007 prompted speculation among analysts that it was moving to tighten its provisions for foreign exploration and mining rights in precious metals, but Roland Wang, the council's China head, said a lack of growth in foreign investment isn't due to policy.

“A key reason [for the foreign absence in China] is that Chinese miners are now more competitive, since they have sufficient funding and access to advanced technology and good equipment,” Mr. Wang said.

Meanwhile, there would seem to be potential for China’s central bank to add to its gold reserves, the World Gold Council said. At 1,054 metric tons, China officially holds more gold than all but four central banks and the International Monetary Fund. However, Chinese central bank gold holdings amount to just 1.6% of the country’s total \$2.4 trillion in reserves, which is a low percentage by international standards, the council said.

If the country simply returned to 2.2%, as in late 2002, this would mean incremental demand of 500 tons at current prices, Mr. Artigas said. “Even if they only increase [total holdings] by 10%, that is still an additional 100 tons of offtake,” Mr. Artigas said.

“China’s central bank became a net buyer of gold last year rather than a net seller,” Mr. Cheng said, noting that this reverses a net-selling trend seen in recent years.