China to pass India as world's top gold market - GFMS

By Chikako Mogi
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SHANGHAI - China will overtake India as the world's largest gold consumer in 2009, with total demand forecast at 432 tonnes as wealthy investors defy record bullion prices, metals consultancy GFMS said on Friday.

China has taken series of measures to open up its bullion market since gold hoarding was forbidden in 1949 when the Communists took power. China's appetite for gold could offset a slump in demand from India, which last year accounted for more than 20 percent of global consumption.

"To answer the question, will China overtake India to become the world's top gold consumer, according to our forecast, it looks as if it is happening this year," Philip Klapwijk, GFMS executive chairman, told a gold conference.

Total gold demand from China in 2009 for jewellery and investment were expected to reach 432 tonnes, compared with 422 tonnes from India, said Klapwijk, adding that the figures exclude central bank purchases.

China's investment demand alone was forecast at 83 tonnes, exceeding India's 53 tonnes.

India bought 200 tonnes from the International Monetary Fund in November, which helped send gold to successive records. Gold was steady around $1,207 an ounce on Friday, within sight of Thursday's record above $1,225.

India's purchase also strengthened speculation that other emerging country central banks will follow suit, particularly China, which has the world's largest foreign exchange reserves worth $2.27 trillion, mostly held in U.S. Treasury bonds.

"Every day we see a bunch of mainland Chinese coming to Hong Kong to buy gold. People in mainland China are getting wealthier," said Ronald Leung, director of Lee Cheong Gold Dealers in Hong Kong.

The renminbi has appreciated a bit. People think gold is a good way to invest," he said.

China has cut the import tax on jewellery and allow selected commercial banks to sell gold bars in a move to boost demand.

Gold is now traded freely at world prices on the Shanghai Gold Exchange, and permission from the central bank is no longer required to operate as gold jewellery manufacturers, wholesalers and retailers.

High gold prices are putting a larger damper on appetite for gold in India than in China, with Chinese demand robust, especially in the investment area, said GFMS' Klapwijk.

Which country will become a bigger gold demand market will depend on prices, he said, adding that sensitivity to market prices is significantly bigger in India than in China.

"There is a huge latent demand in India and it will explode if prices fall significantly from current levels. India will react far more strongly than China to a lower price environment," Klapwijk said.

India’s gold demand has slumped this year because of high prices, falling from 713 tonnes in 2008, according to the World Gold Council.

In comparison, growth in jewellery consumption in China has been strong, especially in the last three to four years.