



## China Gold Demand May Double Within Decade, WGC Says (Update2)

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By Kyoungwha Kim

March 29 (Bloomberg) -- Gold consumption in China may double within the next 10 years, boosting prices as supplies fail to keep pace with booming demand from investors and the jewelry industry, the World Gold Council said.

"China has an insatiable appetite for gold, which looks likely to continue in an environment where domestic mine supply lags behind demand," the council said in a report today.

China's economy grew 10.7 percent in the fourth quarter from a year earlier, the fastest pace in two years, after a 4 trillion yuan (\$586 billion) stimulus package spurred record lending and consumption. The world's biggest gold producer has increased reserves by 76 percent to 1,054 metric tons since 2003 and has the fifth-biggest holdings by country, [Hu Xiaolian](#), deputy governor of the People's Bank of China, said in April.

"An uptick in China purchases could bring an impetus back to the gold market," said [Hwang Il Doo](#), Seoul-based senior trader with KEB Futures Co, by phone today. "Given China's currency reserves and rising wealth, the impact from their buying on prices will be powerful, although it may take time."

Bullion prices have gained 21 percent in the past year as the global recession spurred demand for haven assets and the dollar weakened 5 percent against six major currencies. Gold for immediate delivery was little changed at \$1,106.80 an ounce at 1:50 p.m. in Singapore.

"On the investment side, we see exponential growth," **Albert Cheng**, the council's managing director for the Far East, said in an interview in Beijing.

#### 'Snowball Effect'

Chinese demand from investors and the jewelry industry, which account for 80 percent of purchases in the country, reached 423 tons in 2009, while domestic mine supply was 314 tons, according to the group's data.

The output shortfall will create a "snowball effect" as the country's production fails to keep pace with the annual leap in consumption, the report said. China's gold output rose 8 percent a year from 2006 to 2009, it said.

Higher mine development costs, potential supply disruptions, tougher safety regulations and depleting ore bodies could put a much higher floor under the gold price, according to the council.

"Near-term inflationary expectations and rising income levels are likely to support the investment case for gold as an asset class, especially given that Chinese consumers are high savers and are looking to gold to protect their wealth," the council's report said. "Jewelry and investment growth are expected to be the chief drivers of demand."

#### Investment Demand

If gold jewelry buying in China reaches the same per capita rate as India, Hong Kong or Saudi Arabia, the nation's annual demand could increase by at least 100 tons to as much as 4,000

tons, the Council said.

"Historically, in the past five years, about 20 percent of gold was bought for investment, about 60 percent was bought for jewelry" and the rest for industrial use, Cheng said. "Last year there was a change. Jewelry has come down to about 50 percent and investment has grown to about 30 percent," he said.

Policy makers in China "encourage some alternative investments, but they don't want people to go crazy about property or the stock market," said [Wallace Ng](#), executive director of commodity derivatives with Fortis Nederland NV in Hong Kong. "So they might encourage them to buy other assets such as gold."

The world's central banks also hold gold as a component in their portfolio of reserves, but they don't buy gold as a "trading mechanism," Cheng said. In the past 15 years, central banks in the western world have generally sold gold and "rebalanced their portfolios," he said.

### Banks Buying

Since last year, the world's central banks have switched from selling to buying, Cheng said. Russia, India, China, Sri Lanka and Mauritius have all added to their reserves. "That is a big change," he said.

Gold accounts for 1.6 percent of The People's Bank of China's \$2.4 trillion total reserves, according to the council's report. If the bank raised its gold holdings to the peak of 2.2 percent reached in the fourth quarter of 2002, the "incremental demand would amount to a further 400 tons at the current gold price," the report said.

Still, China's central bank hasn't stated whether it will add to its gold holdings, Cheng said.

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