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## China's Gold Imports Surge Five-fold

The price of gold climbed in Asian trade today, supported by press reports of a surge in China's gold imports that were based on remarks by the chairman of the Shanghai Gold Exchange (SGE). China's gold imports in January to October this year rose 480% YoY to a record of 209.7 tons. At this juncture, China's imports account for approximately 10% of world gold production. The growing Chinese appetite for gold has pushed up trading volumes on the SGE this year - in the first ten months, a total of 5,014.5 tons of gold were traded on the exchange, a 43% increase from the same period last year.

We spoke to Mr. Wang Zhe, General Manager of the Shanghai Gold Exchange for further clarification and learned that strong imports continued in November.

- 11M10 gold imports totaled 247 tons, compared to 60 tons in FY2009. This implies imports of 37.3 tons in November alone. The nation's big 4 banks and Bank of Shanghai (since August 2010) are the only licensed importers of gold in China.
- Mr. Wang emphasized that government purchases were not behind the surge. This corroborates news reports that the demand surge has been fueled by retail investors seeking a hedge against inflation. The last disclosure of China's official gold reserves was made by the State Administration of Foreign Exchange (SAFE) in April 2009, indicating 1054 tons of holdings, an increase of 454 tons since 2003. At the time, SAFE indicated that it had increased its gold holdings through purchases from domestic producers and refining scrap metal. This known level of gold holdings would account for 1.78% of China's \$2.65 trillion in foreign exchange reserves, at the end of the third quarter.
- Year-to-date Shanghai Gold Exchange turnover is 5586.4 tons, representing 38% YoY growth. FY2009 turnover was 4600 tons.
- In the year-to-date, 738 tons of gold inventory has been drawn down, compared to 599 tons in FY2009.
- The biggest drivers of gold consumption in China are jewelry demand, gold bars for investment, and year-end gift-giving. Demand for Shanghai Expo souvenirs has played a small role in boosting recent demand.
- China is now the world's second biggest consumer and biggest producer of gold globally. The country's gold output this year is expected to surpass last year's level of 322 tons.

Going forward, we expect inflation concerns will continue to fuel Chinese demand for precious metals. The China Securities Regulatory Commission recently approved the nation's first QDII fund (from Lion Fund Management) based on gold-backed ETFs operated outside of China. Similar products are at the application stage and will provide domestic investors with a channel through which to access overseas gold markets.

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