

CHINA MOVE POSITIVE FOR GOLD

Gold to the masses - China's top bank partners with World Gold Council

The latest news out of China of gold marketing co-operation between the country's largest bank and the World Gold Council will likely help underpin gold prices at the very least.

Author: Lawrence Williams

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LONDON -

The news today that the state-owned Industrial and Commercial Bank of China (ICBC), the China's largest bank by assets, is to co-operate with the World Gold Council to help promote gold in China, is but the next sign that the Chinese hierarchy is continuing to push gold as an investment to its general population.

Mineweb readers will recall that we broke a story about the state-owned Chinese banks promoting the purchase of gold and silver just over a year ago - China pushes silver and gold investment to the masses - and that this effectively meant that the Chinese state would do its utmost to maintain the gold (and silver) price at a decent level so its citizens, who it had persuaded to buy the precious metals in the first place, did not lose out to the vagaries of the market. Given that state entities will have been understood to be leading the ever-wealthier Chinese middle classes in this direction the state is hardly likely to want to 'lose face' through a declining gold price making an influential, and growing, group of its citizens poorer as a result. And China is certainly, as we have pointed out before, in a strong position to control the gold price should it wish to do so to protect itself.

Indeed given the strong current resistance to a downtrend in gold around the \$1,100 level, and the big purchase in the SPDR Gold Trust ETF by the Chinese sovereign wealth fund, CIC, this support for the gold price may already be under way.

According to statements out of Beijing today, there now exists a Memorandum of Understanding between the ICBC and the World Gold Council whereby they will share gold market resources, promote domestic demand, boost gold investment in China, and develop and market new gold investment products within the country. This thus represents yet another major attempt to further increase gold ownership in China - already the world's second largest consumer, and rising.

According to the WGC statement, both parties will explore and jointly develop new gold investment products tailored to the Chinese market, and conduct surveys and studies on the domestic retail gold investment market, facilitating financial innovation and product diversity. In addition WGC and ICBC Precious Metals Business Department(s) will set up an ICBC/WGC Gold Business Strategy Board to discuss and plan strategies for their co-operation, as well as an Action Team to oversee the implementation of the decisions and initiatives adopted by the Strategic Group.

Aram Shishmanian, CEO of World Gold Council, commented at the MOU signing ceremony in Beijing:

"WGC will continue to develop strategic partnerships in China, in order to provide a stable and sustainable service to Chinese gold investors, and therefore help them achieve wealth preservation."

The World Gold Council in its analysis of China's gold consumption in the report 'Gold in the year of the Tiger' - see China's insatiable appetite for gold as demand exceeds supply - is already predicting a doubling of Greater China (includes Taiwan and Hong Kong) gold consumption from the current estimated 461.9 tonnes over the next decade. With mined gold production expected to remain pretty flat at around 2,500 tonnes - unless there is a huge boost in gold price to stimulate a big rise in marginal production - Greater China could be consuming well over 30% of global mined gold on its own - and India, which is still the world's largest gold consumer, despite a big fall in 2009, could be consuming even more as it too is using state institutions - banks and the Post Office - to sell investment gold to its people.

What this will do to the gold price is anybody's guess - but does appear extremely positive! It would at least underpin the gold price level with the World's two biggest consumers keen to retain current prices at the very least, as a collapse would undermine domestic wealth, which means gold price downside is probably very limited. On the upside it could thus be assumed that the sky's the limit here, although again it may not be in China and India's best interests - politically and economically - to see massive price rises as this could be very inflationary as more and more of their huge populations are drawn into the gold purchasing community.

In terms of potential gold price manipulation, if it exists, we possibly thus 'ain't seen nothing yet', but this time it would be from a totally different neck of the woods, which may indeed have been calling the tune anyway for the past year.