

China to Further Open Gold Market For Foreign Trading, Imports, PBOC Says

By Bloomberg News - Aug 3, 2010 12:47 PM ET

China will let more banks import and export gold and open trading further to foreign companies as near-record prices and falling stock markets spur demand in the world's second-largest buyer of the metal. Gold prices gained.

China may "increase foreign members on the Shanghai Gold Exchange and will also study ways to allow foreign qualified bullion suppliers to deliver to the exchange," the People's Bank of China said today. Banks may also be allowed to hedge onshore gold positions overseas to encourage the development of yuan-denominated derivatives trading, it said.

Gold demand in China, the world's largest producer, gained in the first half as government measures to cool the property market and falling equities spurred investment, the Shanghai Gold Exchange said July 7. Gold climbed to a record in June as investors sought to protect their wealth amid concerns about the global economic recovery, and is headed for a 10th consecutive annual increase.

The latest steps "are extremely encouraging and seem certain to lead to increased gold demand in a country that has recently been contending with India for position of the largest consumer of gold in the world," said [George Milling-Stanley](#), the New York-based managing director of government affairs at the producer-funded World Gold Council.

Prices Climb

Gold for immediate delivery gained as much as 0.7 percent to \$1,190.70 an ounce and traded at \$1,188.40 at 5:21 p.m. in London. Bullion reached a record \$1,265.30 an ounce on June 21.

"China's domestic production of gold, albeit the largest in the world, cannot satisfy its demand," said [Ellison Chu](#), managing director at the precious-metals desk at Standard Bank Asia Ltd. in Hong Kong. "By allowing more foreign participation and more Chinese commercial banks to import and export, China can better balance its demand and supply."

The total volume of gold traded on the Shanghai Gold Exchange jumped 59 percent from a year earlier in the first half to the equivalent of 3,174.5 metric tons (102.1 million troy ounces), Song Yuqin, vice general manager at the exchange, said last month.

"It will allow more participants in the Chinese gold market" and enable more banks to trade in the country, said [Edel Tully](#), a London-based analyst at UBS AG. While the change signals the Chinese gold market's increased importance, it won't draw trading away from Europe because the country's market is already at a "significant" size, she said.

Standard Chartered

The Shanghai Gold Exchange has five foreign bank members including the Chinese units of [HSBC Holdings Plc](#) and [Standard Chartered Plc](#), according to a statement on the bourse's website.

Sales of gold products such as bars and coins by [China National Gold Group Corp.](#), owner of the country's largest deposit of the metal, jumped as much as 40 percent in the past six months, Song Quanli, deputy party secretary at the company, said July 7.

China's gold output may rise about 5 percent this year, solidifying the nation's position as the world's largest producer, Song said. China produced 313 tons of gold last year, the executive said.

To increase physical gold supply, the central bank will "increase the number of commercial banks who are qualified to import and export gold, based on the market demand situation," it said in today's statement. The central bank also said it will support overseas investment plans by "large-scale" bullion companies by backing them financially.

Official Reserves

The State Administration of Foreign Exchange, which manages the nation's reserves, said last month that U.S. government debt has the benefits of "relatively good" safety, liquidity, low trading costs and market capacity. Gold is unlikely to become a major holding in China's foreign reserves owing to the metal's big price swings and lack of interest payments, SAFE said then.

China's announcement today "contradicts those who had misinterpreted recent comments from officials about the limited role of gold in the country's official reserves as implying some sort of disapproval of gold," said Milling-Stanley of the council. "That is clearly not the case, with the government taking significant steps to improve access to gold for their citizens."