Press release

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NEW REPORT PREDICTS SUSTAINED STRONG GOLD DEMAND IN CHINA IN NEXT FOUR YEARS

A major report published today by the World Gold Council “China’s gold market: progress and prospects” suggests that private sector demand for gold in China is set to increase from the current level of 1,132 tonnes (t)1 per year to at least 1,350t by 20172. Following the record level of Chinese demand in 2013, which saw the country become the world’s largest gold market, the report suggests that while 2014 is likely to see consolidation, the succeeding years are likely to see sustained growth.

The report examines the factors that have driven China’s rise to become the number one producer and consumer of gold since the market began liberalising in the late 1990s. It also highlights why despite this steep growth in demand, the market will continue to expand, irrespective of short term blips in the economy.

The next six years will see China’s middle class grow by over 60%, or 200m people, to a total of 500 million. Comparing this to the total population of the US, which stands at 319m, puts the size of this new market of affluent consumers, with the propensity to buy gold, in perspective.

In addition to these newly emerging middle classes, rising real incomes, a deepening pool of private savings and rapid urbanisation across China suggest that the outlook for gold jewellery and investment demand in the next four years will remain strong.

Albert Cheng, Managing Director of the Far East at the World Gold Council said:

“Since liberalisation of the gold market began in the late 1990s and the subsequent offering of gold bullion products by local commercial banks from 2004, we have witnessed astonishing increases in demand for gold from consumers across the country. The cultural affinity for gold runs deep in China and when this is combined with an increasingly affluent population and a supportive government, there is significant room for the market to grow even further. The country is now at the centre of the global gold eco-system.”

“Whilst China faces important challenges as it seeks to sustain economic growth and liberalise its financial system, growth in personal incomes and the public’s pool of savings should support a medium term increase in the demand for gold, in both jewellery and investment.”

The key findings from the research include the following:

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1 Thomson Reuters GFMS. This compares with the China Gold Association’s estimate of 1,176.4t.
2 Precious Metals Insights
China's continuing urbanisation means that it now has 170 cities with more than one million inhabitants\(^2\) - within these cities, the middle classes currently number 300 million and are set to grow to 500 million by 2020. Demand for gold amongst those with a greater disposable income and limited investment opportunities will continue to grow.

**Chinese savings levels remain high** – there is an estimated US$7.5 trillion in Chinese bank accounts and household allocations to gold remain small, around $300bn. Gold is seen as a stable, accessible investment by consumers, particularly in the light of rising house prices and a lack of alternative savings options. Chinese investors have a preference for physical gold over paper, with investment focused on small bars, gift bars or Gold Accumulation Plans (GAPs). New gold investment products mean that medium term demand for bars and coins could reach close to 500t by 2017 – a rise of nearly 25% above its record level last year.

**China has become the world’s number one jewellery market, nearly trebling in size over the past decade** – at 669t in 2013, it accounts for 30% of global jewellery demand. Estimates suggest that demand will continue to grow and reach 780t by 2017. There are now over 100,000 retail outlets selling 24k gold and thousands of manufacturers nationwide.

**Consumer sentiment toward gold is unwavering** – although 40% of jewellery consumption relates to weddings, the appetite for gold in China goes beyond occasions and gift giving. 80% of consumers surveyed for this report planned to maintain or increase their spending on 24-carat gold jewellery over the next 12 months believing that gold will hold its long-term value and because they expect to have a higher level of disposable income.

**Chinese electronics demand for gold will see small gains in the next four years** – industrial demand has grown with electronics being the key driver (climbing from 16t in 2003 to 66t in 2013\(^4\)). China is also the leading market for gold related patents such as the use of nanogold in healthcare.

**Official gold holdings in China totalled 1,054t at the end of 2013 making the country the world’s sixth largest holder of bullion** - based on this declared stock, gold represents 1% of China’s total official reserves (down from a peak of almost 2% in 2012) due to the rapid growth of the country’s foreign exchange holdings which reached around US$3.8 trillion at the end of 2013. Speculation continues as to whether the Chinese government has increased its gold holdings.

**China has gone from being a minor producer to the world’s largest source of mined gold** - in the past ten years production has doubled from 217t to 437t.

Follow the World Gold Council @GOLDCOUNCIL and download the full report at [http://www.gold.org/supply-and-demand/china-report](http://www.gold.org/supply-and-demand/china-report)

**ENDS**

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\(^2\) National Bureau of Statistics

\(^4\) Precious Metals Insights estimate based upon Thomson Reuters GFMS data
Notes to Editors

Methodology

The World Gold Council commissioned Precious Metals Insights (PMI) to lead the research into the outlook for Chinese gold demand over the medium term (defined as 2014-2017 for the purpose of this report) and to compose this report that details its findings. Philip Klapwijk, founder and Managing Director of PMI, is a veteran of the gold market, with a wealth of experience through his time as Executive Chairman of GFMS and Head of Global Metals Analytics at Thomson Reuters GFMS. The research is a synthesis of his intimate knowledge of the Chinese gold market and the World Gold Council’s expertise.

This was complemented by a series of in-depth interviews PMI and the World Gold Council jointly undertook with a number of key gold market participants in Shenzhen, Shanghai and Beijing. In addition, the report draws upon the extensive consumer research the World Gold Council has undertaken over recent years. This includes:

- A comprehensive usage and attitudes study of over 10,000 Chinese consumers’ relationship with gold jewellery undertaken in 2011 (TNS).
- A piece of regular research from May 2013 to March 2014 with a series of waves asking Chinese consumers about their outlook for gold prices and intentions to buy gold jewellery over the next 12 months (Kadence).
- A snapshot of 1,000 Chinese consumers to understand what motivates them to buy gold jewellery and bullion (TNS).

The collective knowledge of PMI and the World Gold Council, combined with extensive consumer research and industry expertise, has resulted in a detailed and insightful piece of analysis.

Key Forecast Assumptions

The forecasts for jewellery consumption and investment demand prepared for this report by PMI are based on several key assumptions:

- Chinese GDP growth slows to an annual average rate of 6% between 2014-17. As the Chinese economy becomes larger and more mature its natural rate of growth will decline. Since 2009 the most important source of growth has been credit-driven fixed investment. This has become a less efficient means of generating additional gains in GDP. The transition towards an economic model where consumption plays a greater role in GDP is likely to result in lower GDP growth rates.
- Private consumption is forecast to grow at an average 7.5% per annum over 2014-17. The gradual shift towards a more consumption driven economic model will require the rate of private consumption growth to exceed that for overall GDP. Growth in private consumption will be constrained by an only slow decline in China’s exceptionally high household savings rate.
- The probability of a financial crisis occurring over the medium term is considered high and growing. This risk stems from over-rapid credit growth and significant ‘malinvestment’. A financial crisis is forecast to lower both GDP and private consumption growth over the 2014-17 period. (The precise timing and impact in any one year is impossible to forecast and so a loss of 2% of GDP is averaged out over the four years in question.)
- Inflation is expected to remain under control (below 5%) over the medium term but inflation expectations could well grow because of the massive monetary easing that would almost certainly be undertaken in the wake of a financial crisis occurring in China.
- No major change to the RMB exchange rate is forecast over the medium term. A modest appreciation is expected in 2014 but in 2015-17 there could be a shift to a moderate depreciation. This can be expected because (initially) there may be a period of general US dollar appreciation. In addition, a financial crisis may impact the renminbi negatively. The authorities could also use currency depreciation as a means of softening the blow from such a crisis, as this would assist the export sector.
PMI’s gold price assumption for this forecast is that 2014 sees a generally ‘weak’ trend. However, the expectation is that during the following three years gold prices will tend to recover, reaching an annual average of around US$1,500 in 2017.

**World Gold Council**

The World Gold Council is the market development organisation for the gold industry. Working within the investment, jewellery and technology sectors, as well as engaging in government affairs, our purpose is to provide industry leadership, whilst stimulating and sustaining demand for gold.

We develop gold-backed solutions, services and markets, based on true market insight. As a result, we create structural shifts in demand for gold across key market sectors.

We provide insights into the international gold markets, helping people to better understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, the Far East, Europe and the US, the World Gold Council is an association whose members include the world’s leading and most forward-thinking gold mining companies.