

Making Sense of Chinese Gold Flows and Gold Demand

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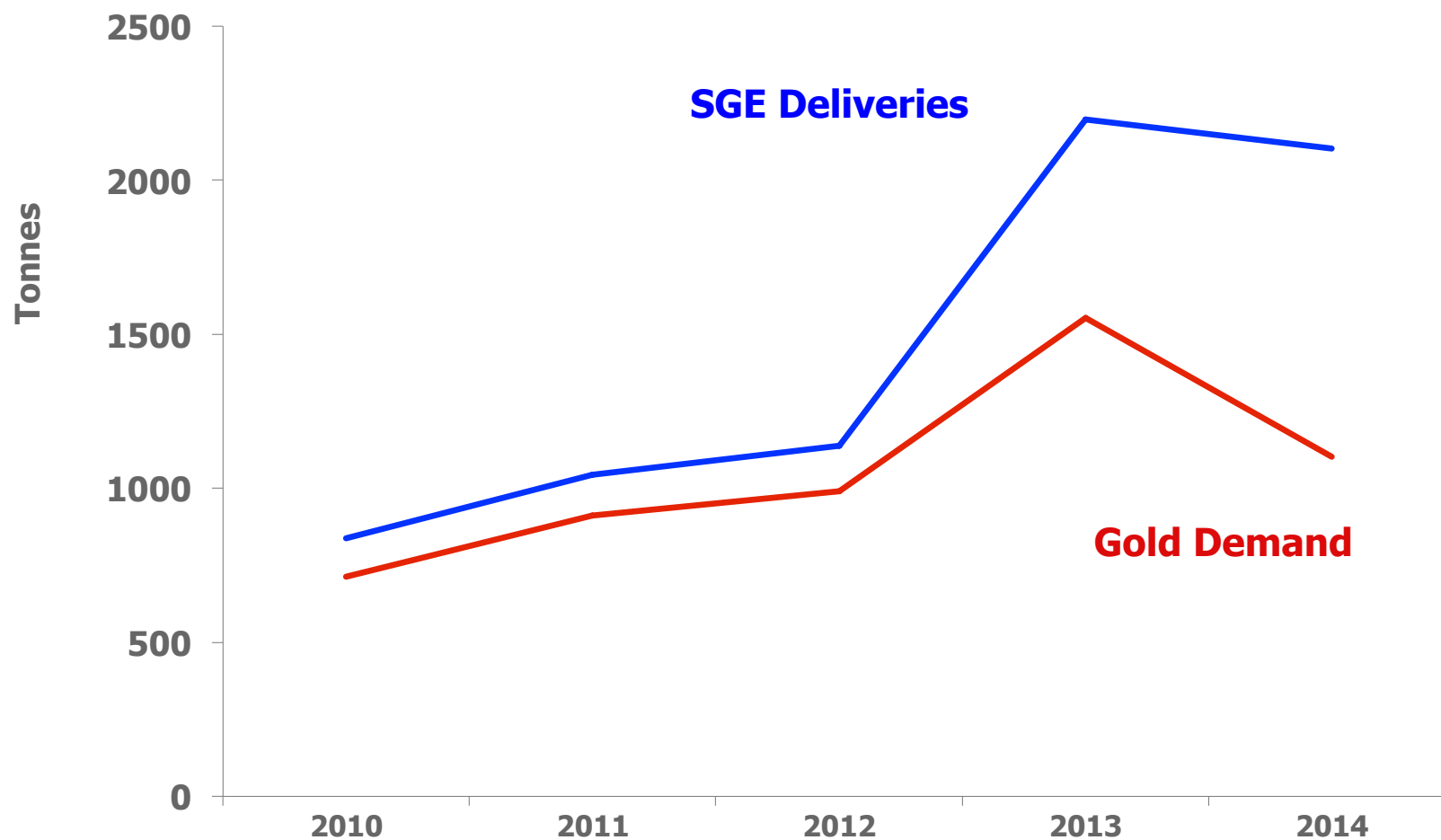
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Bloomberg Intelligence and CME Group Precious Metals Forum

London, 22nd May 2015

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SGE DELIVERIES & DEMAND* IN CHINA



*Demand from private sector (jewellery fabrication, industrial fabrication, physical investment in bars & coins)

Source: Metals Focus; Shanghai Gold Exchange

CHINA SUPPLY/DEMAND STRUCTURE

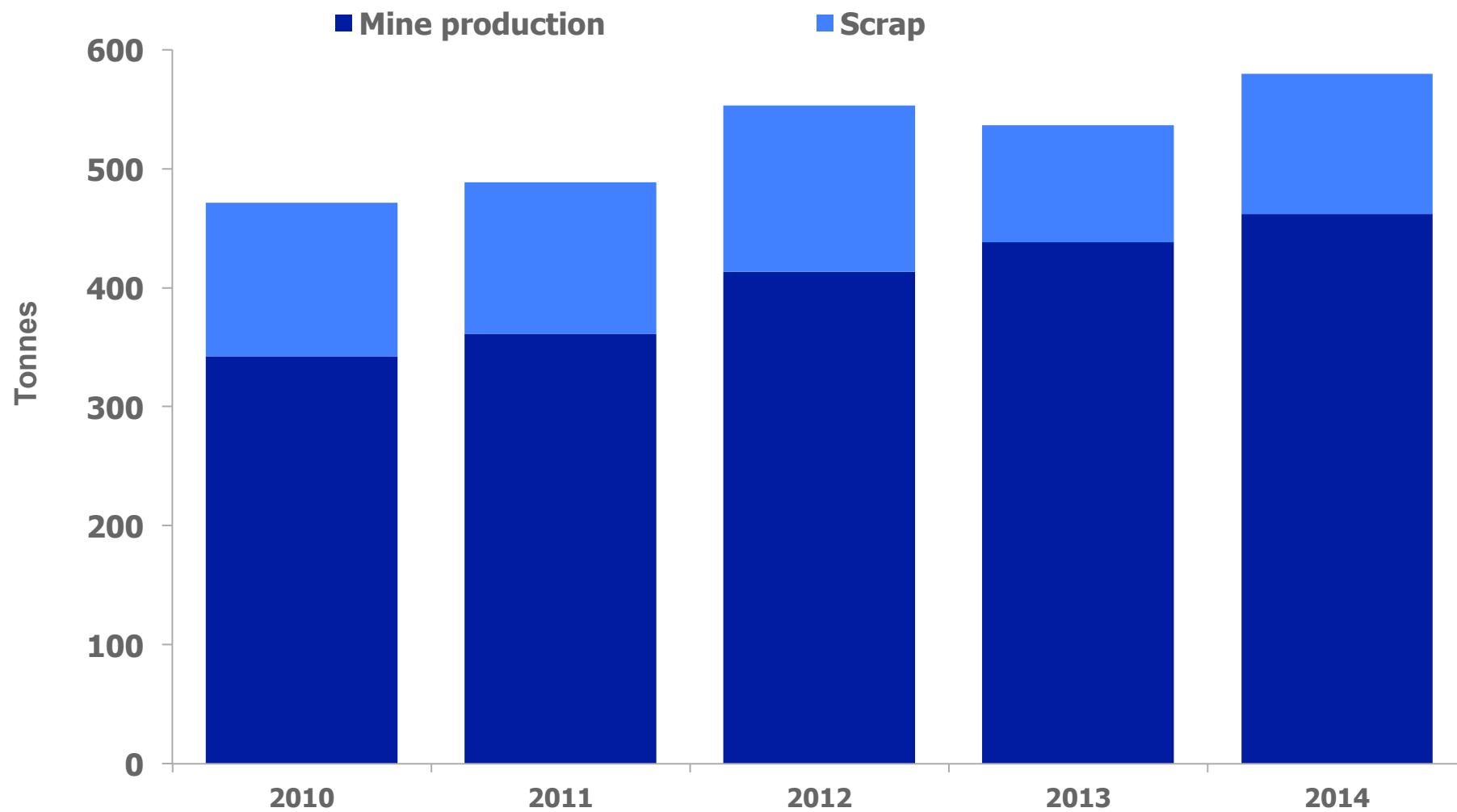
SUPPLY

- Mine Production
- Scrap
- Bullion Imports

DEMAND

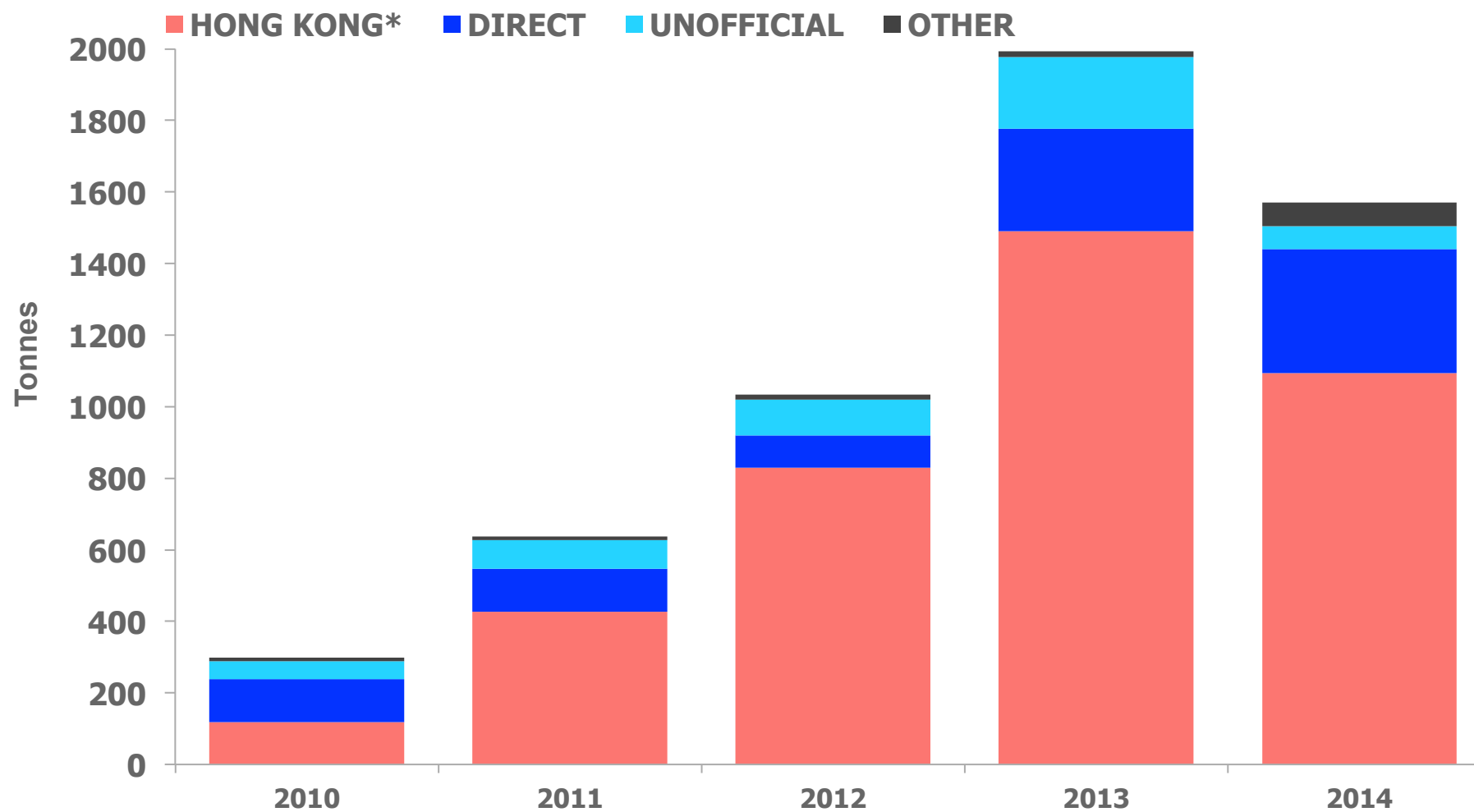
- Jewellery Fabrication
- Industrial Fabrication
- Physical Investment
- Bullion Exports
- Other Exports
- 'Financial Demand'
- Official Sector Demand?

CHINA MINE PRODUCTION & SCRAP SUPPLY



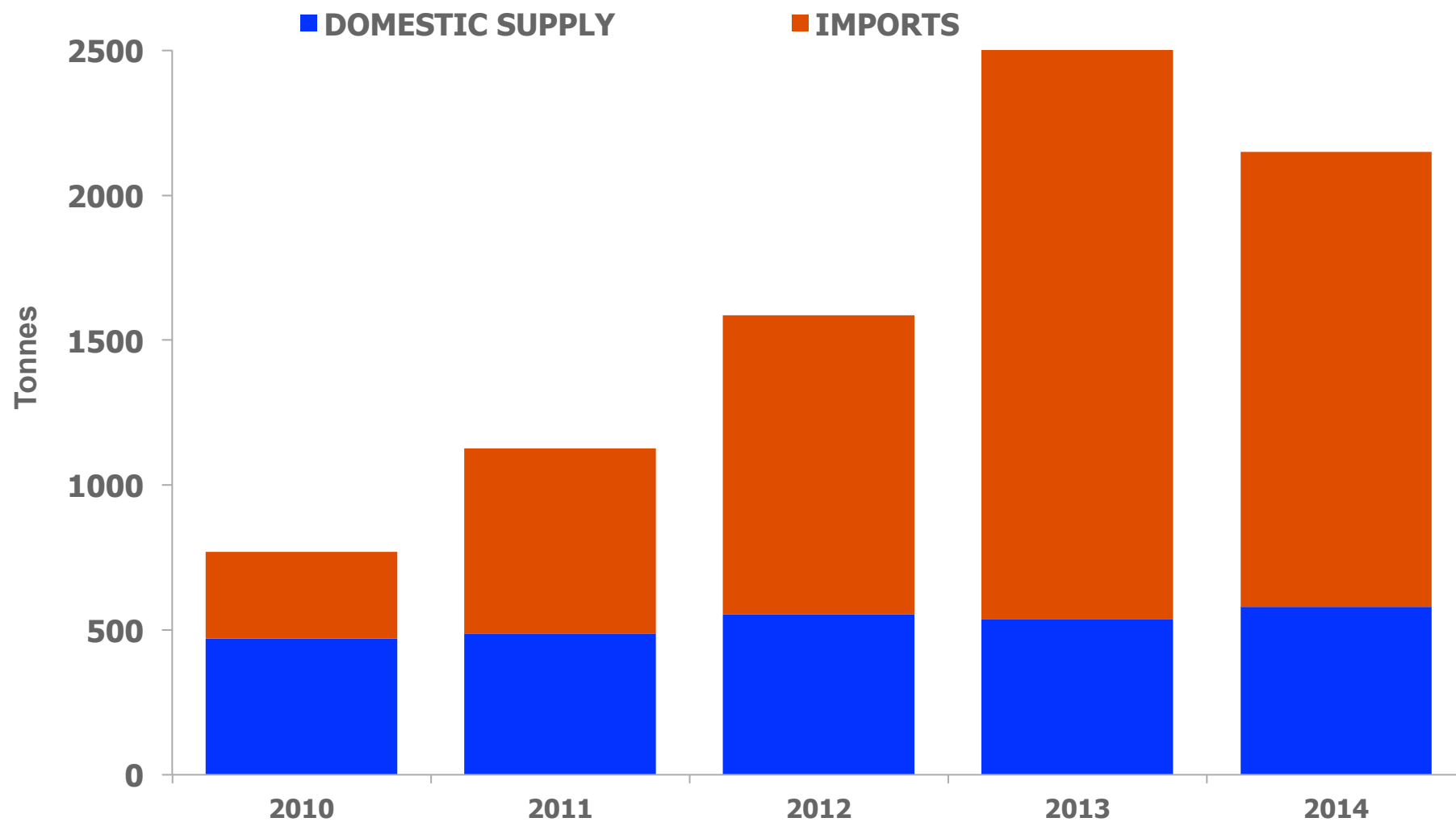
Source: Metals Focus

CHINA GOLD IMPORTS



*Hong Kong data refers to gross exports of bullion to mainland China
Source: GTIS; Metals Focus; Precious Metals Insights

CHINA DOMESTIC SUPPLY & GOLD BULLION IMPORTS



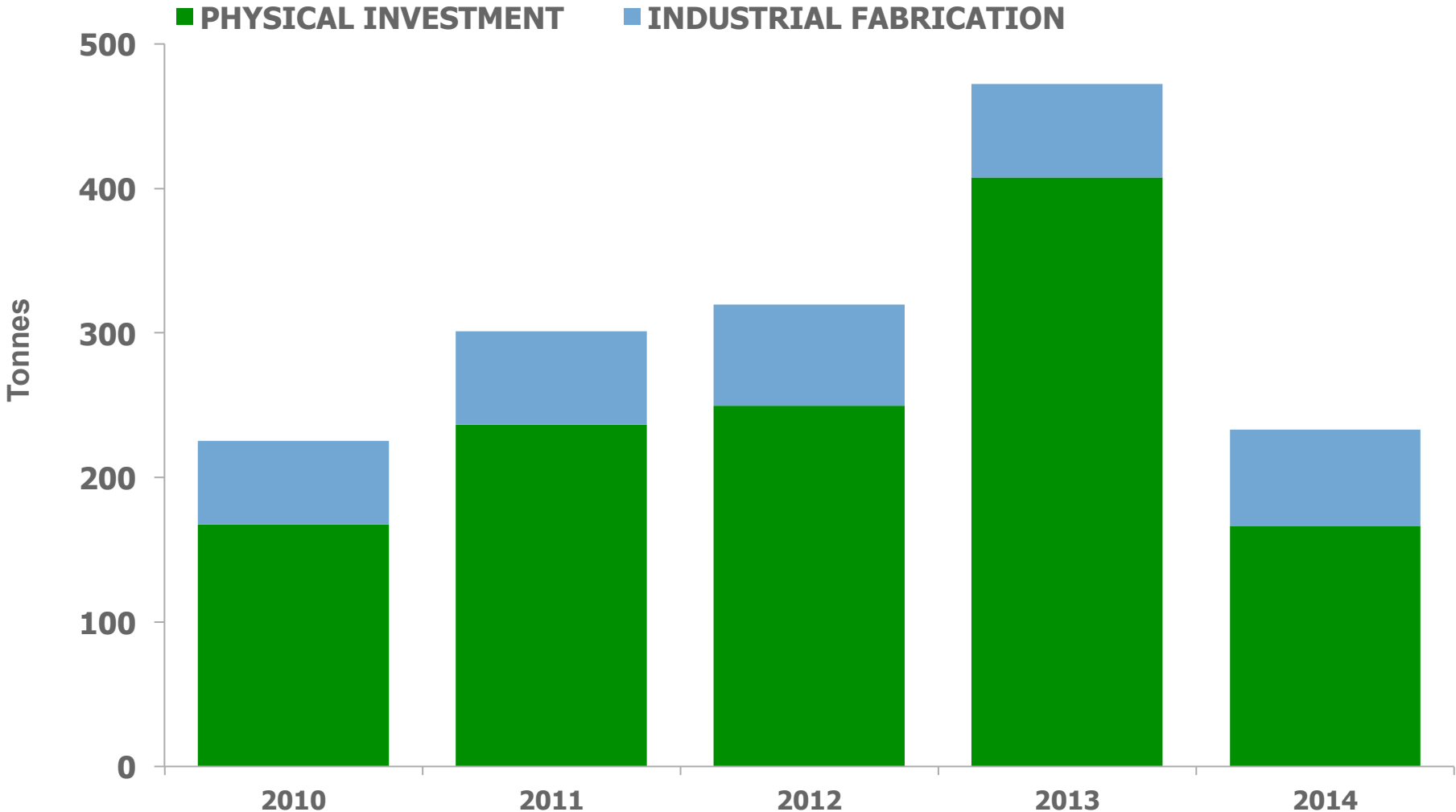
Source: GTIS; Metals Focus; Precious Metals Insights

JEWELLERY FABRICATION & LOCAL GOLD PRICE



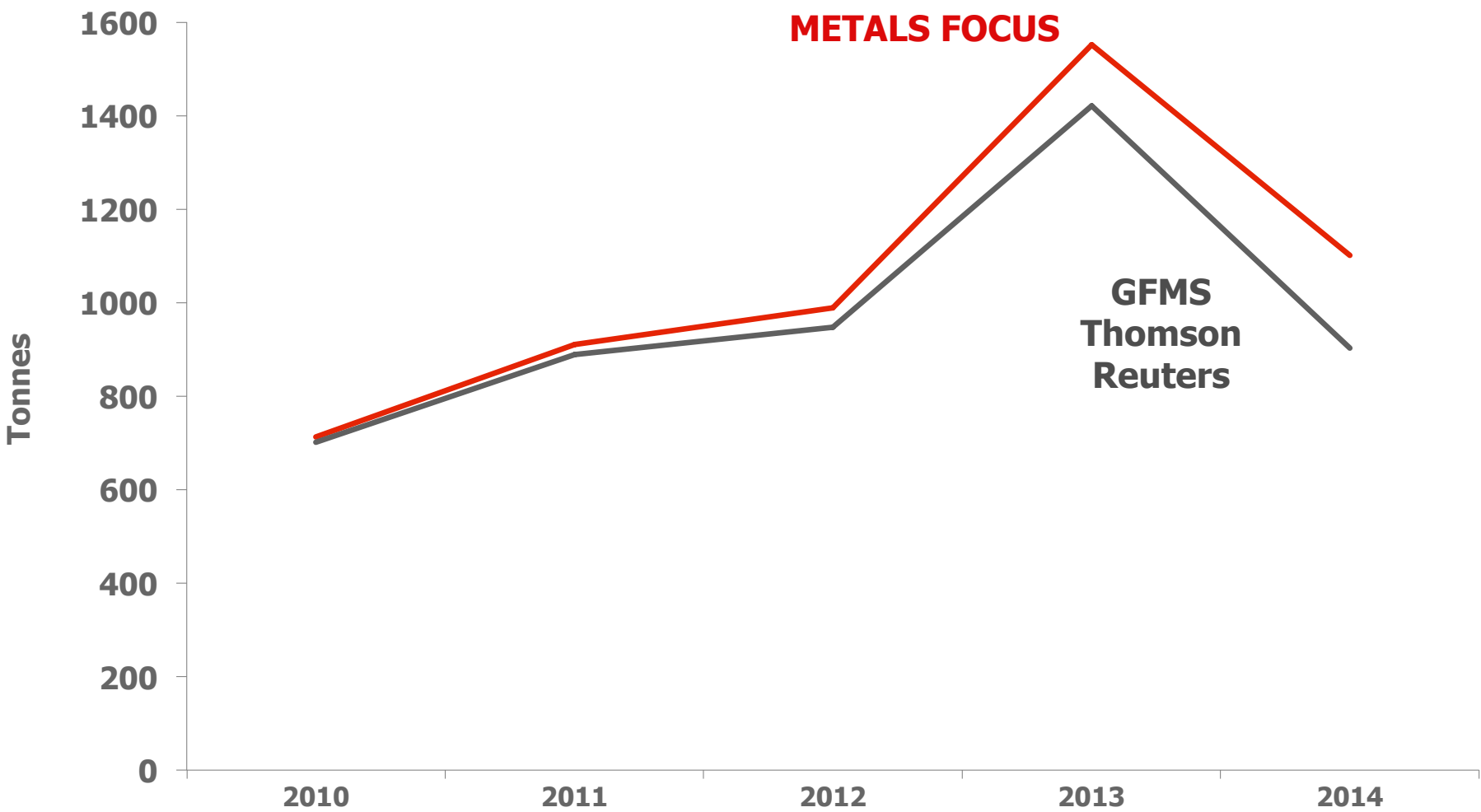
Source: Metals Focus; Shanghai Gold Exchange

CHINESE PHYSICAL INVESTMENT* & INDUSTRIAL FABRICATION DEMAND



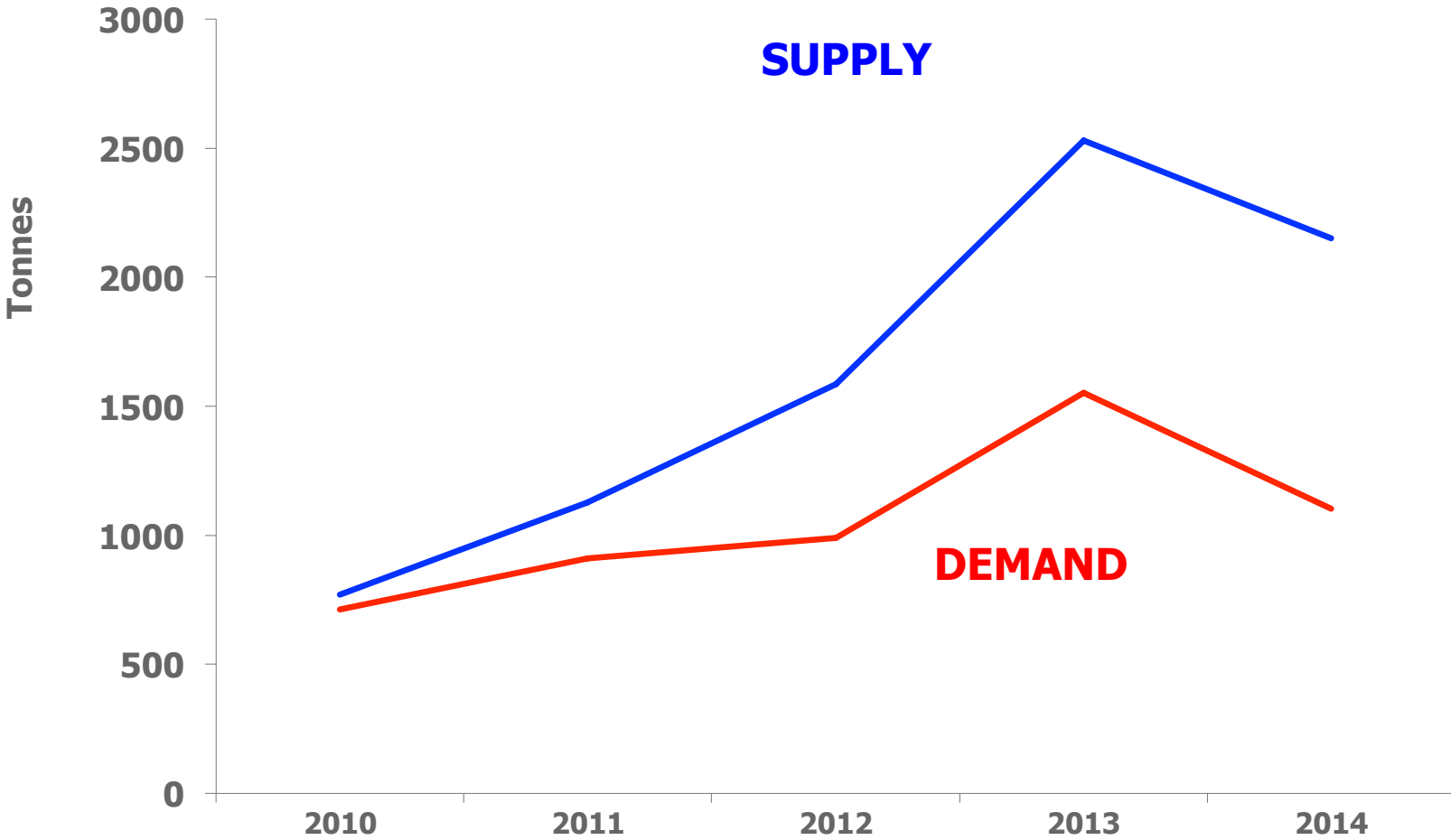
*Private sector loco-China demand for bars, coins, GAPs
Source: Metals Focus

CHINA GOLD DEMAND: METALS FOCUS & GFMS



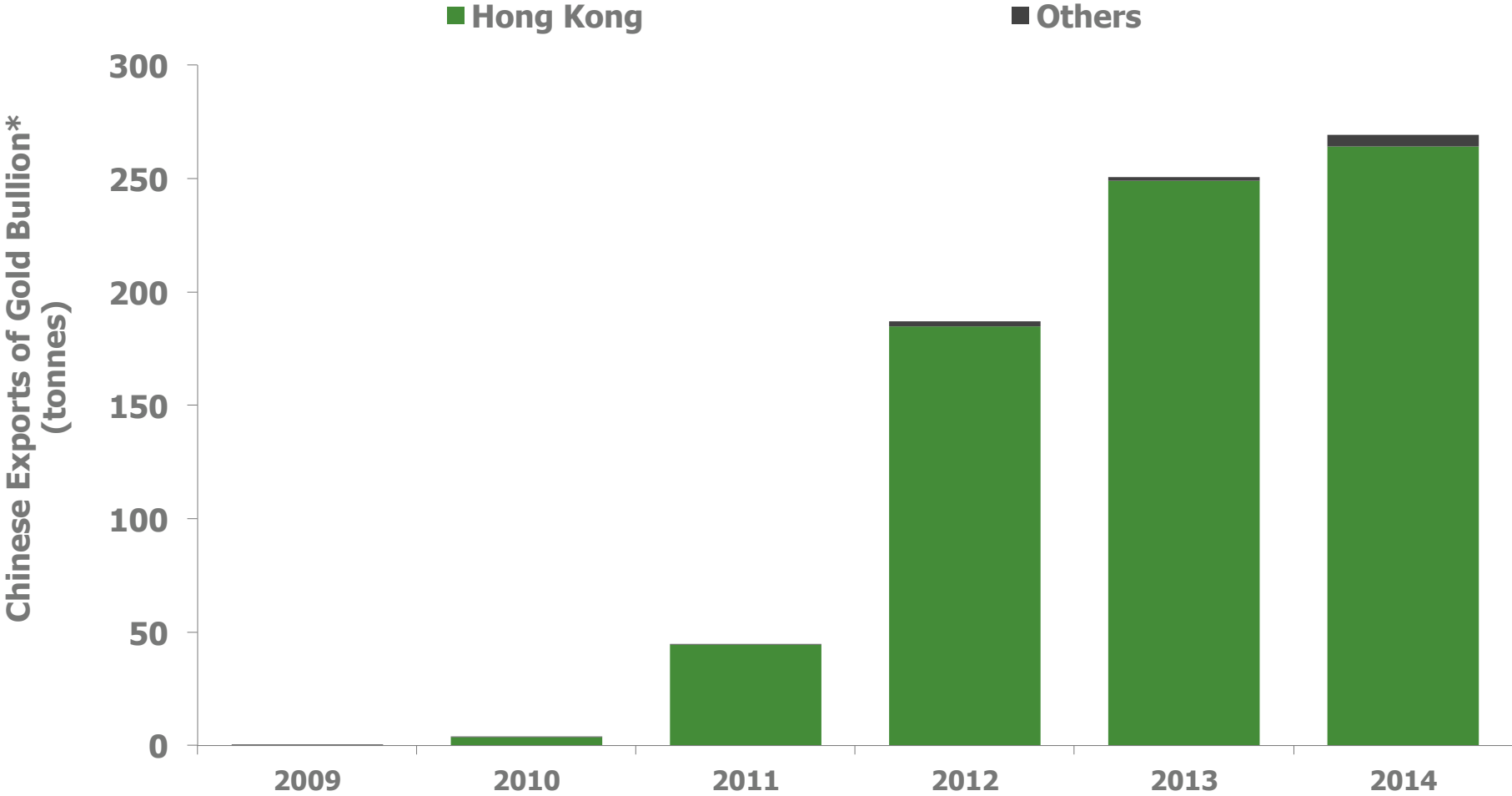
Source: Metals Focus (Fabrication plus Physical Investment); GFMS Thomson Reuters (Fabrication plus Bar + Coin Demand)

GOLD DEMAND* & SUPPLY** IN CHINA



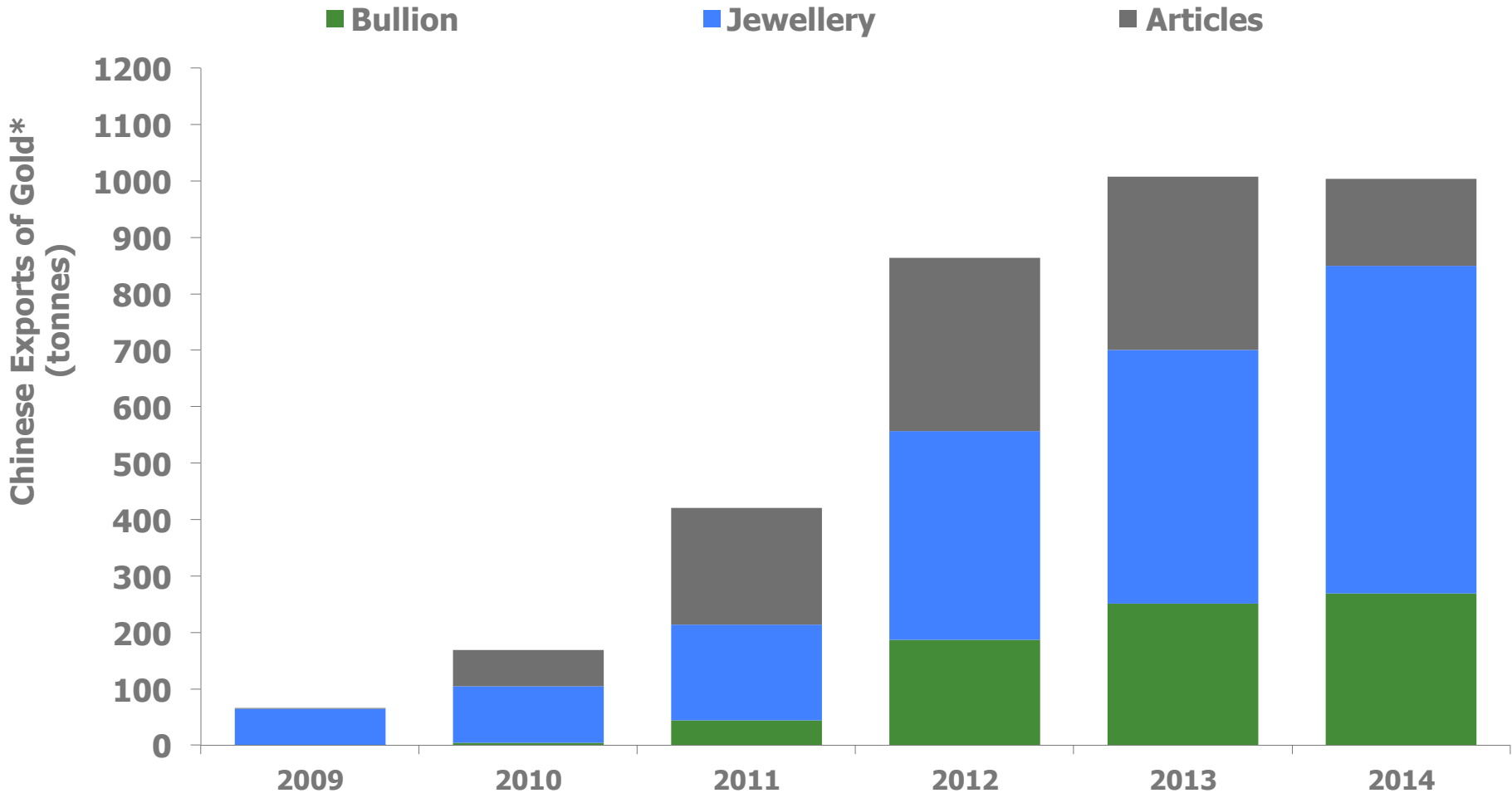
*Fabrication and investment demand (from the private sector); **Domestic supply from mines & scrap plus bullion imports
Source: Metals Focus; Precious Metals Insights

CHINESE EXPORTS OF GOLD BULLION*



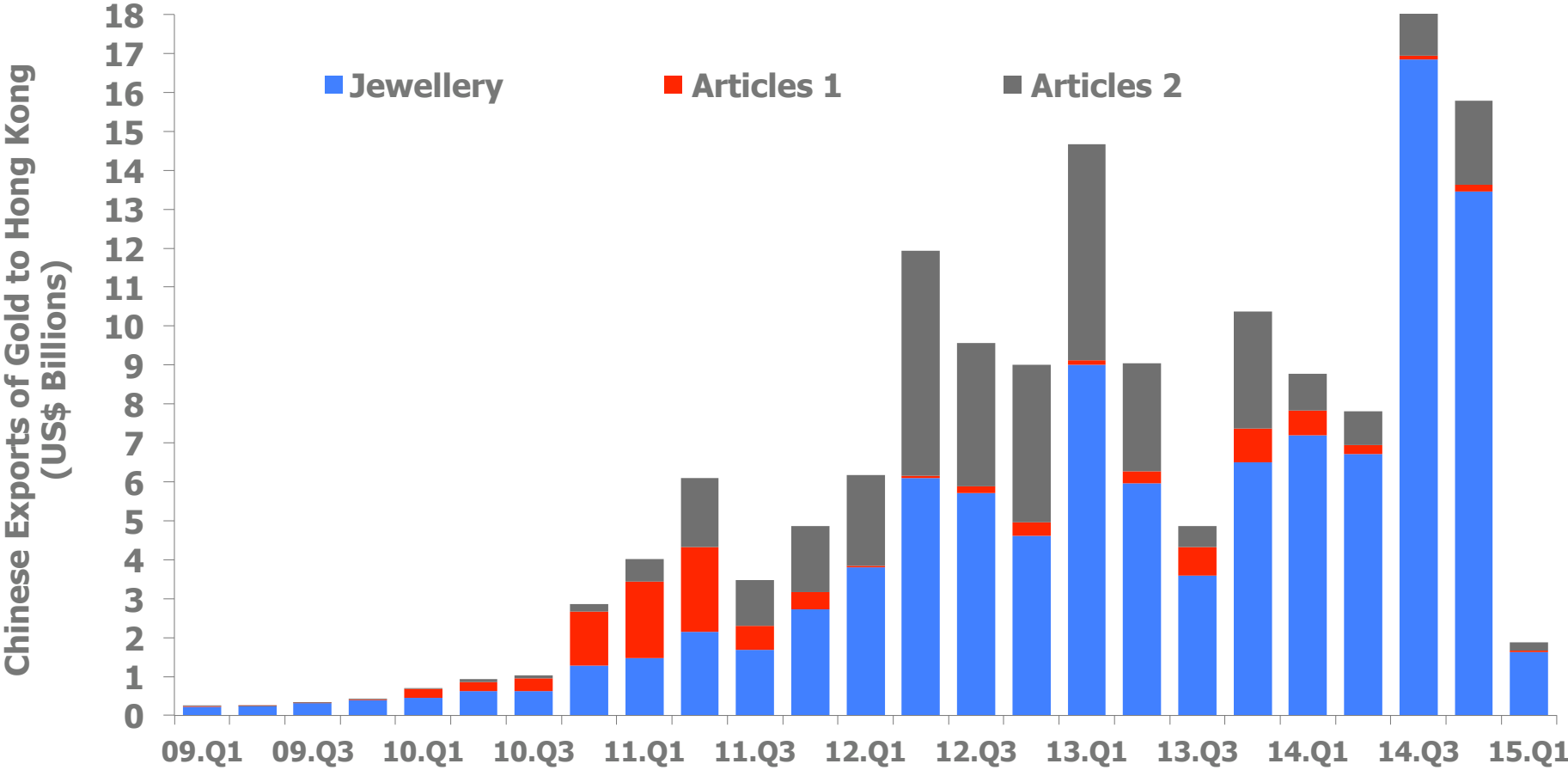
*Derived from bullion import data
Source: GTIS; Precious Metals Insights

CHINESE EXPORTS OF GOLD*



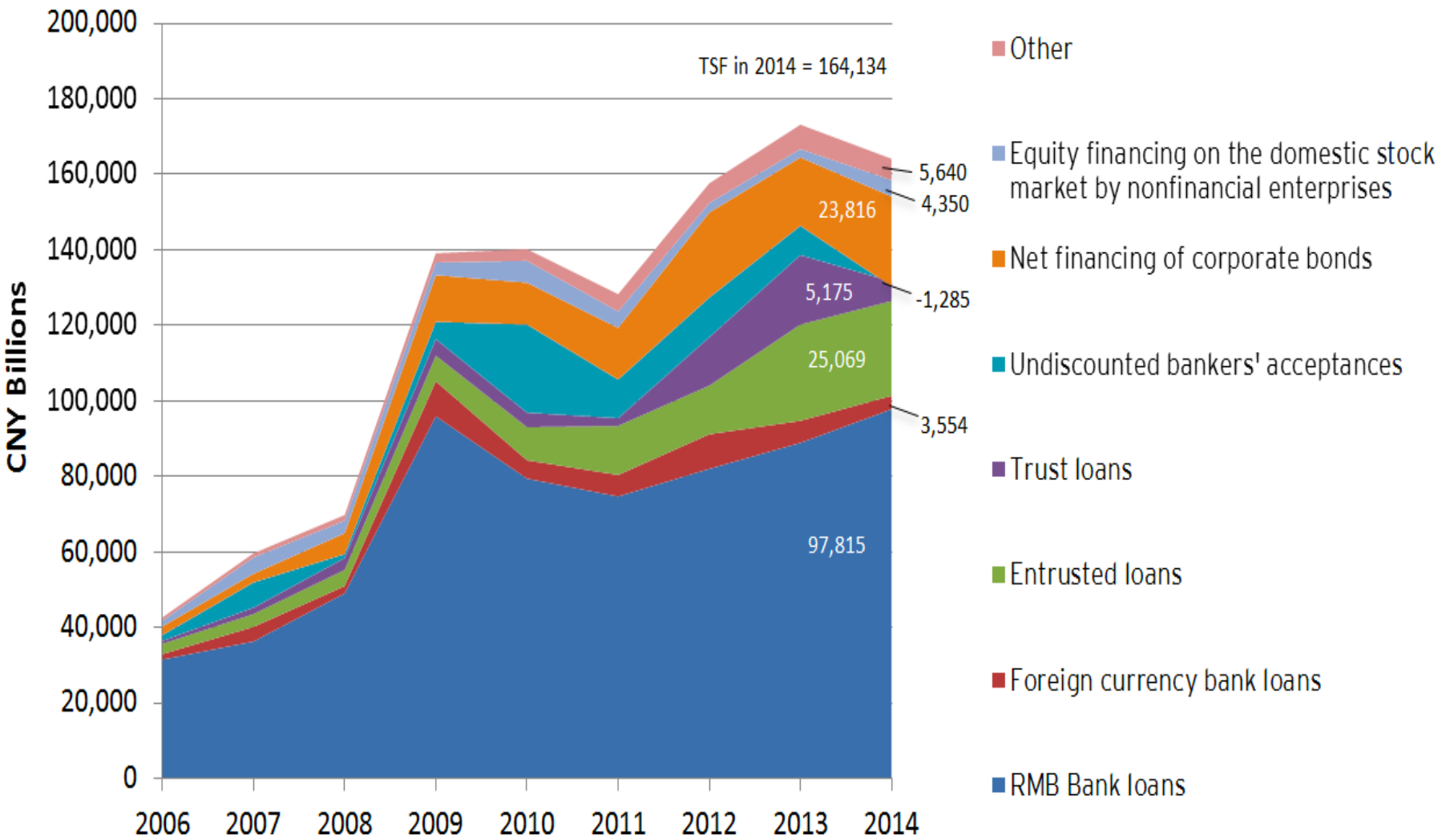
*Chinese Exports of Gold = Bullion and estimated gold content of Jewellery and Articles (latter two based on exports to HK only)
Source: GTIS; Precious Metals Insights

CHINESE EXPORTS OF GOLD TO HONG KONG



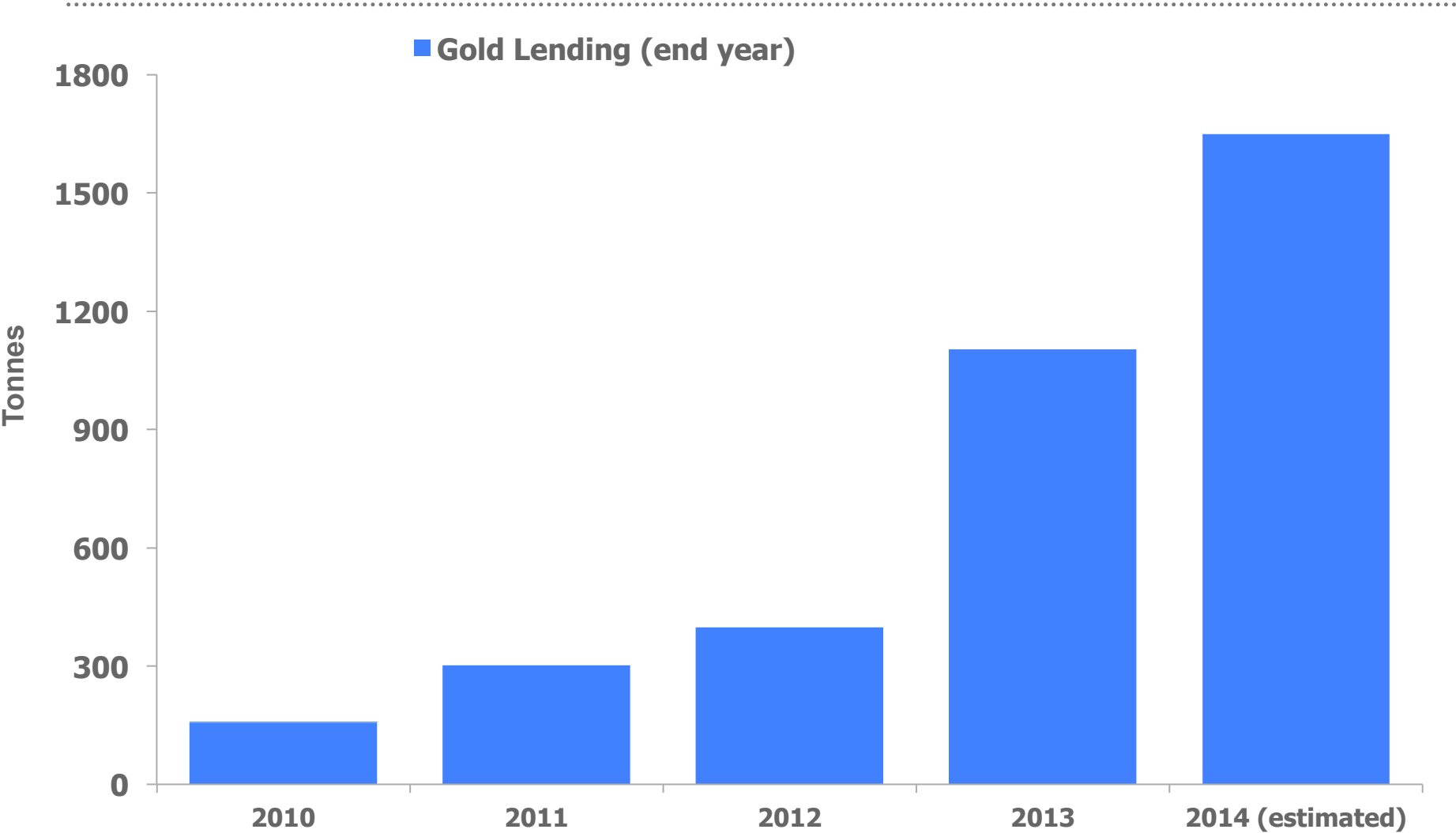
Source: GTIS; Precious Metals Insights

TOTAL SOCIAL FINANCING IN CHINA



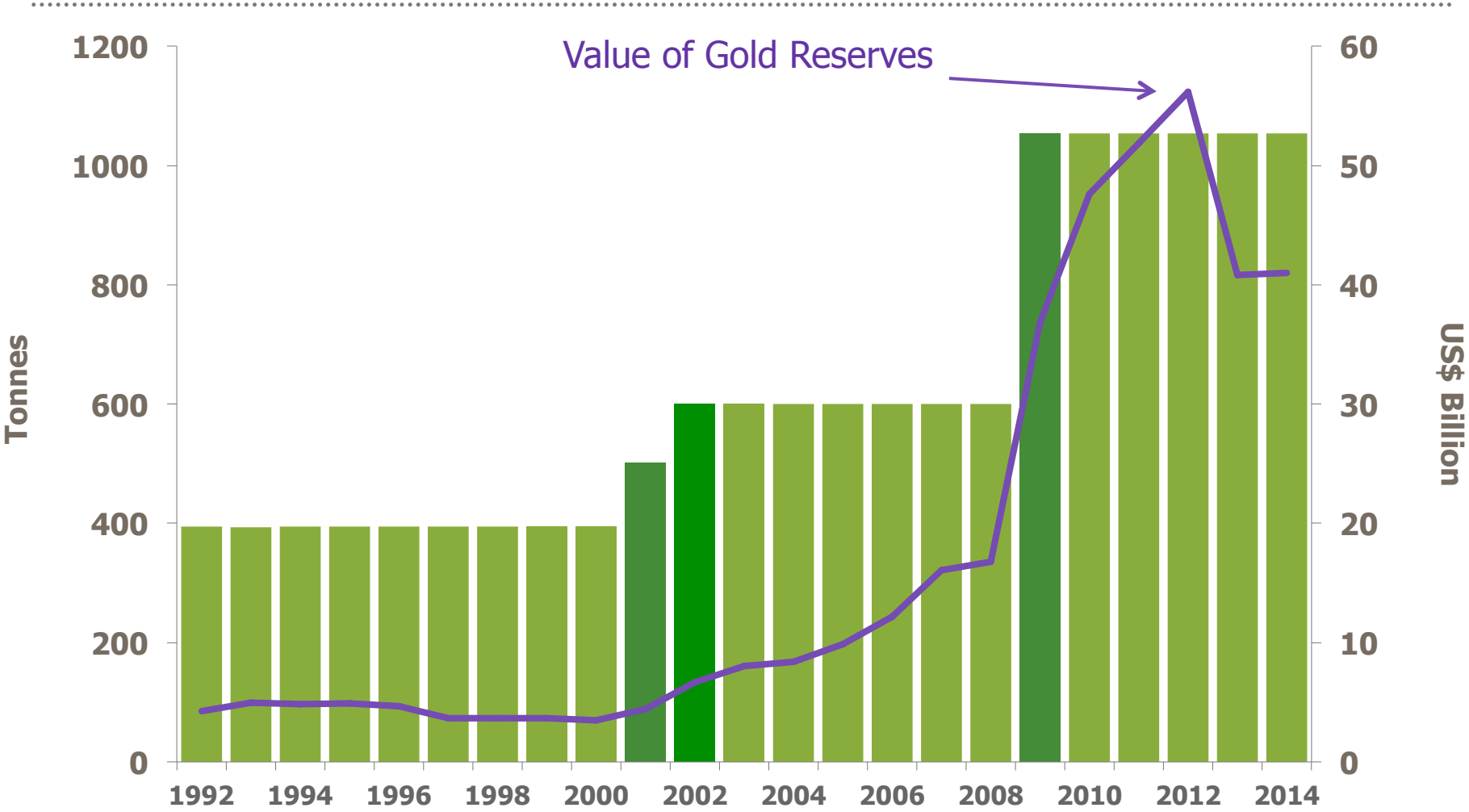
Source: Deloitte

GOLD LOANS VOLUME IN CHINA



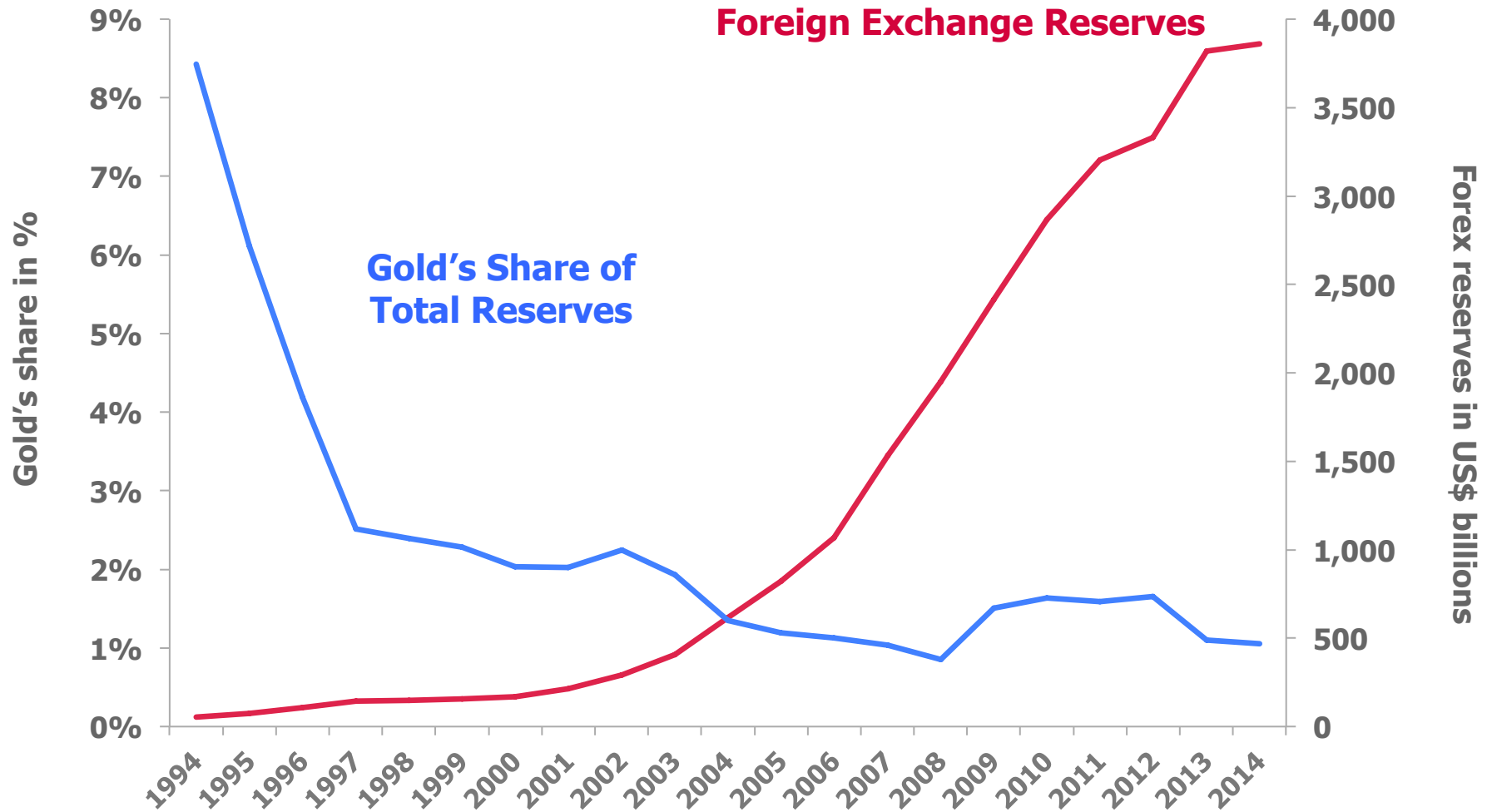
Source: Shanghai Gold Exchange; Precious Metals Insights

CHINA OFFICIAL MONETARY GOLD RESERVES



Source: IMF; Precious Metals Insights

CHINA FOREX RESERVES & GOLD'S SHARE OF TOTAL RESERVES



Source: IMF; Precious Metals Insights

CONCLUSIONS

- Supply of gold to the Chinese market (whether measured by an independent supply calculation or SGE deliveries) exceeds demand (defined as jewellery, industrial & investment) by a wide margin, especially in 2013 and 2014.
- It is most improbable that demand (defined as jewellery, industrial & investment) is currently being undercounted.
- The 'surplus' in the Chinese gold market is being absorbed by several 'non-standard' sources of demand from the private sector. Some of these overlap and can give rise to double counting. Moreover, the (only partial) data available on these 'non-standard' sources of demand needs to be carefully interpreted and not simply taken at face value!
- It is possible that official sector purchases in the domestic market (directly or indirectly) may account for part of the apparent China gold market 'surplus' in recent years.
- A substantial quantity of gold has been relocated from the West to China as a result not only of 'genuine' demand growth but also because of the explosion in 'non-standard' demand.
- A major policy or market driven unwinding of the 'non-standard' demand would probably result in China trading at a considerable discount to the international market. The impact of such a development on the global gold price level (as opposed to premium/discount) is less clear cut.

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