



Gold Corporation
(trading as The Perth Mint)
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A statutory authority under the
Gold Corporation Act (1987) of
Western Australia

Founded in 1899, the Perth Mint is an integrated precious metal operation refining circa 10% of world gold production; servicing investors with legal tender bullion coins and bars and the Perth Mint Depository custodial facility; providing collectors with innovative and high quality numismatic coins; supplying mints with precious metal blanks; and operating a leading Perth tourist attraction.

HOW MUCH GOLD DOES CHINA HAVE?

On the 24th of April 2009, China announced that it had increased its gold reserves 75% from 600 tonnes to 1,054 tonnes. What made the announcement unusual was the six year gap in reporting, given the previous two changes were in December 2002 (99.2 tonnes added) and December 2001 (105.7 tonnes added).

In addition, the World Gold Council's (WGC) quarterly gold reserves reports notes that the purchase of the 454 tonnes took place over the January 2003 to April 2009 period, so it wasn't a one-off purchase. It is clear China moved from a regular reporting schedule to a more strategic approach.

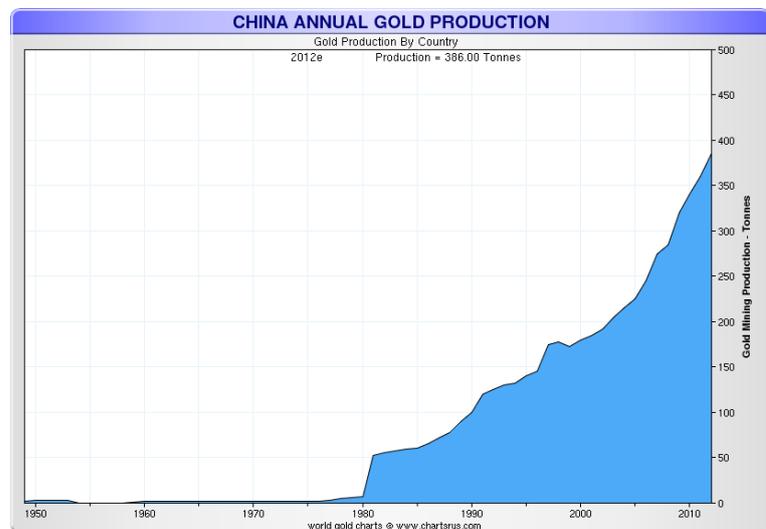
It has now been 3½ years without any indication from China as to the size of their gold reserves. With imports of gold into China, and gold production within China, having increased significantly over the past few years it raises the question of how much gold has China been accumulating since 2009?

To answer that question, we will look at China's gold mining and importing activities and estimate how much of that is held by the government versus privately.

MINE PRODUCTION

The chart below from Sharelynx ([link here](#), [subscription](#) required) demonstrates China's rise as a gold mining leader. While the growth has been impressive, the WGC's [China Gold Report](#) (April 2010) notes that *“structurally, supply growth in China could be challenging unless there is more funding directed to exploration”*, which may account for the significant increase in Chinese gold imports as there has been a domestic (private) supply-demand gap in China for some years.

Accumulated gold production since 1980 to July 2012 is 5,255 tonnes.





NET IMPORTS

Hong Kong is the channel through which gold moves into China. Sharelynx kindly provided the chart below ([link here](#)) which shows import and export volumes of gold with China from Hong Kong's [Census and Statistics Department](#).

I have titled this section "net imports" because as the chart shows, over the past year there has been a dramatic increase in gold exports from China to Hong Kong (the blue bars).

Most media reports mistakenly focus on Hong Kong's exports to China only ([example](#)), whereas what matters for this analysis is the net flow of gold into China (the red bars).

In respect of the increase in gold flowing out of China, [GFMS](#) report that

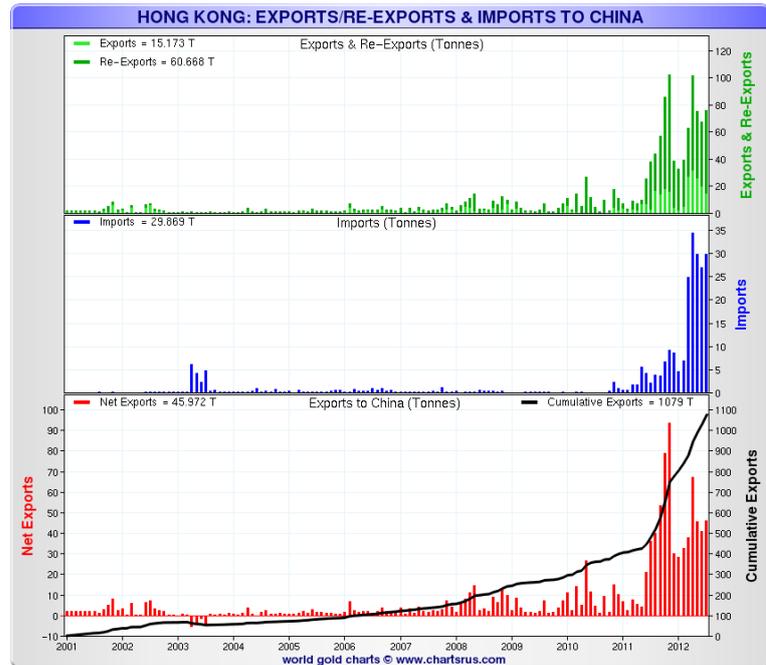
"our information collection from various trade sources indicated that these Hong Kong export numbers have been highly inflated by growing round tripping between mainland China and Hong Kong whereby local companies used gold to engage in currency and interest rate arbitrage transactions."

This "round tripping", where the gold goes in but then comes back out, results in the reported Chinese imports overstating the actual net gold inflows into the country.

In speaking with our bullion bank contacts we can confirm the transactions are happening as GFMS describes. These sorts of round tripping arbitrages occur from time to time in the gold market as traders take advantage of profit opportunities.

While China loosened regulation of its gold market after 2002, the chart shows how China's net imports really only start growing significantly from June 2011 onwards. This reflects the fact that Chinese gold production was meeting most of domestic consumer demand early in the decade but since then the situation has deteriorated with a local supply-demand gap occurring.

Since 2001 the Hong Kong data reveals that 1,079 tonnes of gold has been imported by China. With 2001 & 2002 net imports at around 1 tonne a year, we estimate another 21 tonnes could be added to the 1,079 figure to cover the 1980 – 2000 period.





STOCKS

In *China's Gold: The Eternal Treasure*¹, Sang Shang notes that

“the retreating Nationalist Government took all of the gold reserves to Taiwan after the revolution... it can be said that the current Chinese renminbi rose from a start of only about 6000 liang (0.3 tons) of gold” and “that for the 30 years after the revolution, the gold held by citizens went to the government. This gold was basically all used to import goods and was not stored as reserves.”

We therefore assume that by 1980, when Chinese gold production began its rise, there was little gold held in China. An estimate of Chinese gold stocks can then be made by adding accumulated gold production since 1980 of 5,255 tonnes to our net import estimate of 1,100 tonnes, giving 6,355 tonnes.

This figure is confirmed by the Sang Shang article, which states that *“the total amount of gold held by both private citizens and the government reserves amounts to between 4000-5000 tons of gold.”* This article was from 2007. Gold production and imports from 2008 onwards is 2,436 tonnes, giving a figure of between 6,436 to 7,436 tonnes.

For comparison, Indians are said to hold 18,000 tonnes². With comparable populations, this means China's per capita gold stocks are well below India's: 0.1516 ounces per person versus 0.4782 ounces.

OFFICIAL RESERVES

China's attitude towards gold is best summed up by the General Manager of China National Gold Group and President of the China Gold Association via this less than perfect [Google translation](#):

“in addition to increasing reserves and gold through the international market to choose the main channel of the implementation of the national gold strategy should be to increase domestic gold resource integration efforts and increase gold production ...

In addition, as an important component of the system of national gold reserves, China should also encourage the personal investment demand for gold. Practice has proved that private gold reserves is an effective complement to national reserves, is very important for the maintenance of the country's financial security”

The WGC [China Gold Report](#) believes that the People's Bank of China (PBoC) *“has been purchasing local gold mine production and local refining of recycled gold in local currency”* rather than being *“seen switching out of the US dollar”* and that *“the PBoC proceed on a gradual strategy, if it decides to increase its allocation.”*

¹ Business Culture Magazine 2007, translated from Chinese by [China Gold News Blog](#)

² [India: Heart of Gold](#), World Gold Council, May 2011



From the above we can conclude that the Chinese government is not acquiring significant amounts from gold production or net imports as this would restrict personal investment demand. The question is: how much of the gold inflows are they adding to their official reserves.

An answer to that question comes from the table below, which compares previous changes in gold reserves to net import and mine production inflows over the period the gold reserve additions were acquired.

Period	Change in Reserves (t)	Net Imports (t)	Mine Production (t)	Change in Reserves as % of Imports & Production
Jan 2002 – Dec 2002	99.2	32	195	43.7%
Jan 2003 – Apr 2009	454.1	192	1556	26.0%

With a policy of not restricting private investment, we feel that any official accumulation post April 2009 is unlikely to be at a rate greater than 26% of gold inflows into the country.

Applying 26% to the net imports and mine production for the period May 2009 to July 2012 gives the following:

Net Imports	818.9
Mine Production	<u>1136.0</u>
Total Gold Inflows	1954.9
Addition to Reserves (@ 26%)	508.3

With last reported gold reserves of 1054.1 tonnes, we therefore suggest that a reasonable estimation of China's current gold reserves would be 1,560 tonnes.

It is of course possible that official acquisitions may have occurred through other channels which are not recorded. However, if these were significant then it may raise doubts if, at the next official announcement by China of its gold reserves, the figure does not tally with publically reported gold inflow figures as discussed in this article.

In the meantime, we will have to wait for China's next strategically timed gold reserves announcement.

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