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China's Appetite for Gold

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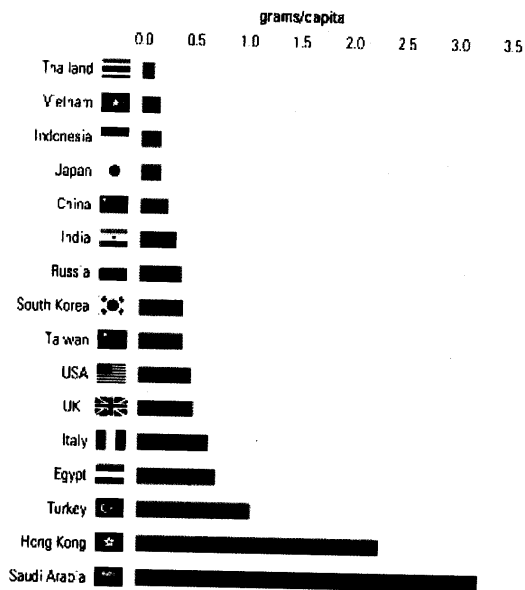
By Frank Holmes, U.S. Global Investors

March 30, 2010

What would happen to the price of gold if China's annual consumption went up tenfold?

That's the high-end demand case laid out by the World Gold Council (WGC) in its new report "Gold in the Year of the Tiger," which focuses on China.

Consumption of Gold Jewelry Around the World



Note: Jewellery data in this chart refers to consumption not fabrication
Source: GFMS, IMF, WGC estimates

The WGC says China's gold consumption of 423 tonnes in 2009 works out to about one-quarter of a gram per person, which is lower than other Asian countries with cultural affinity for gold (chart). The Saudis consume more than three grams per person, and in Hong Kong, it's more than two grams.

"If gold were consumed in China at the same rate per capita as in India, Hong Kong or Saudi Arabia, annual Chinese demand could increase by at least 100 tonnes to as much as 4,000 tonnes in the jewellery sector alone," the WGC writes.

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OK, 4,000 tonnes (128.6 million troy ounces) looks pretty extreme, even for the most enthusiastic gold devotees. The WGC offers a more reasonable but nonetheless bullish outlook: China's gold demand has nearly doubled over the past five years (13 percent growth per year), so it would not be a huge stretch for a doubling to roughly 850 tonnes per year in the next decade.

Gold demand is rising as China's middle class expands, and while the nation is the world's largest producer, domestic supply falls short of demand by some 100 tonnes per year and that gap will almost certainly widen with rising demand.

As more foreign gold is diverted to the Chinese market, the impact on world prices could be significant.