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Survey Structure

- ▶ Survey of miners, jewelry chains, and gold traders:
 - ▶ 4 managers of gold mining companies
 - ▶ 3 managers of jewelry chains
 - ▶ 2 exchange traders of gold
 - ▶ 1 bank manager of gold procurement
- ▶ The mines are three of China's largest and represent a significant portion of supply. But Chinese gold production and inventory levels are secret.
- ▶ The traders and the banker represent an insignificant portion of investment activity in gold.
- ▶ Repeat sources: none.
- ▶ Interviews July 12-19.

Objectives

- ▶ To understand current trends in gold.

Gold Survey

Stimulus Does Nothing for Anemic Gold Demand

- ▶ Actual gold demand among the retail public is declining, but there is very high interest by both retail and institutional investors in speculating on rising gold prices.
- ▶ Both consumers and retail traders are risk-averse.
- ▶ Apart from being used for jewelry, gold is in high demand as collateral in financial leasing.

Cold to Gold

Uncertainty tends to support speculation in gold, and no assets blow bubbles the way Chinese assets do. Property has expanded and contracted, the stock markets went through a wild peak and valley, iron ore and select other commodities attracted feverish speculation, and even the staid bond market had its day. Many expected Chinese hot cash to drive up the price of gold. Not so.

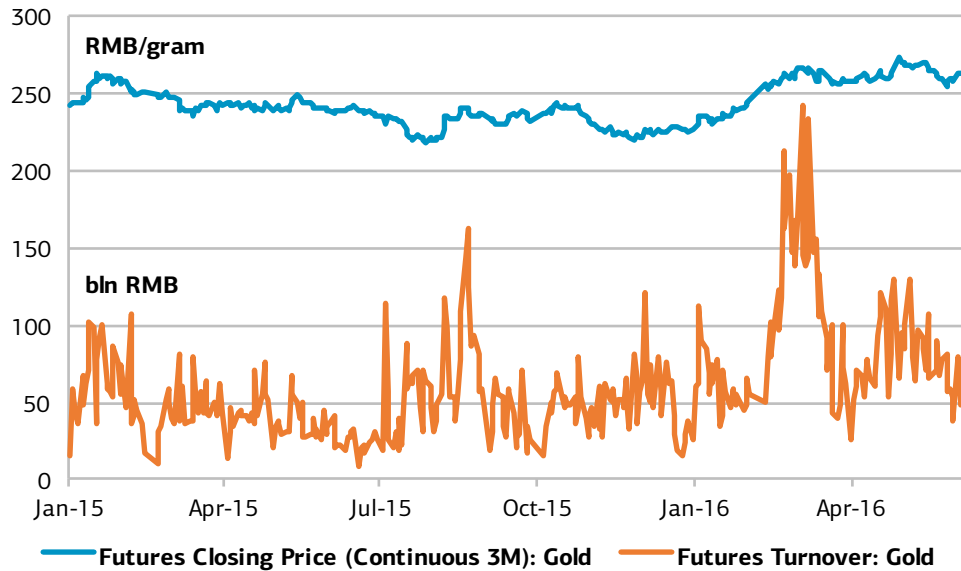
Perhaps the difference is that China does not have a commanding portion of world demand for gold and, despite the long-term claim that China is the world's largest producer, the country has never evidenced supply bulges or contractions.

China's claimed 490 tons of annual production, in fact, is not visible from any of the reported mines, and most foreign miners say privately that they do not believe China produces even half of what it claims to. Others believe that off-the-grid, private production of gold and black market sales are huge.

Both miners and jewelry chains reported declining sales and weak demand for gold, despite a brief upturn around the Brexit vote. A manager of gold trade at a bank said that at least 70% of the bank's demand comes from the financial leasing business, which lends gold to companies for short positions. The companies then return the gold to the bank, betting that its price will have dropped over the lease term.

Despite the weak demand for physical gold and its relatively flat prices, futures markets have seen surges in volumes.

Chart 1. Gold Futures Turnover and Pricing



Source: Dalian Commodity Exchange

Notable Quotes

“Where do they get their huge volumes of concentrate for refining? Mysterious. You can see the smuggled and imported gold from the ‘Stans and from Russia . . . the domestic black market selling product from illegal mines is huge.” —Director of a gold mining company in China

“Last year in March-April the government permitted gold exports for a while but we didn’t do it. The Shanghai Gold Exchange sells gold on its Hong Kong platform.” —General manager of a Chinese gold mine

“When they need it, the government pays no attention to the price of gold and just sells it to obtain foreign exchange.” —Sales director of a Chinese gold mine

“The economic environment is really bad. A lot of enterprises need money urgently.” —Old manager at a bank

“The number of new accounts being opened is at a record high.” —Shanghai-based gold trading company

“Newbies make up the majority of traders. They buy and sell in small amounts but there is a large group of them.” —Beijing gold trader

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