

- 09:33:21 [Jan Harvey](#) thomsonreuters.com Last year saw **China's net gold imports from Hong Kong** fall 30% from the previous year's record levels. Here to discuss how this fits into the overall demand picture for gold in China is **GFMS** analyst Samson Li, who's recently been doing some interesting research in this field.
Welcome, Samson!
- 09:33:54 [Samson Li](#) thomsonreuters.com Hello, thanks for letting me onto this
- 09:34:09 [Jan Harvey](#) thomsonreuters.com Delighted to have you with us!
- 09:34:13 [Jan Harvey](#) thomsonreuters.com There was a pretty sizeable drop last year in gold imports to China from Hong Kong, but there's been some controversy over how far this was actually reflective of underlying demand trends. What has your research told you about this?
- 09:34:39 [Samson Li](#) thomsonreuters.com I think Hong Kong gold imports is still a good indication of Chinese gold demand, especially for jewellery fabrication.....
- 09:34:56 [Samson Li](#) thomsonreuters.com Hong Kong is located next to Shenzhen, China's major jewellery fabrication hub. It makes economic sense for gold jewellery fabricators based in Shenzhen to get the gold from HK instead of Shanghai or from Beijing, due to logistics and transportation costs.
- 09:36:17 [Jan Harvey](#) thomsonreuters.com What were premiums telling us about demand last year?
- 09:36:54 [Samson Li](#) thomsonreuters.com The level of Chinese premia is a good indication of China's gold demand and supply situation during that particular period, especially from the jewellery fabrication sector....
- 09:37:08 [Samson Li](#) thomsonreuters.com Chinese gold premia in general is at a higher level during certain months due to seasonal demand (Jan – Feb, end of April- early May, mid Sept-early Oct and mid Dec) for gold jewellery;
- 09:37:27 [Samson Li](#) thomsonreuters.com likewise gold premia in general is lower (sometimes even at a discount) during weak seasons, mostly during the second and third quarters.....
- 09:37:55 [Samson Li](#) thomsonreuters.com For example, the performance from the jewellery sector was really strong during the Spring Festival in 2014. Average gold premium in January 2014 was \$15.95 per ounce, compared to 'just' \$10.15 in January 2013 and \$5.25 in January 2015.....
- 09:38:10 [Samson Li](#) thomsonreuters.com However I would like to point out that the gold premium in Jan 2015 does not necessary mean the Chinese appetite was noticeably lower – there were two trading days that Chinese gold price

- were recorded as discounts, which was very rare in Jan due to seasonal demand....
- 09:38:38 [Samson Li](#) thomsonreuters.com The international gold price shot up during certain days due to the surprised move by the Swiss Central Bank, and the Chinese gold price had a hard time to follow, meaning the demand chain held off purchases during an up day, waiting t until prices ease somewhat.
- 09:41:40 [Jan Harvey](#) thomsonreuters.com So what conclusions can we draw about the overall picture for Chinese demand last year?
- 09:43:16 [Samson Li](#) thomsonreuters.com Total demand dropped year-on-year, which is really to be expected by the market. Gold Jewellery demand in 2014 was still comparable to 2012 levels....
- 09:44:06 [Samson Li](#) thomsonreuters.com in fact, dropping a third in jewellery fabrication perhaps is already better than many would have initially expected...
- 09:45:03 [Samson Li](#) thomsonreuters.com The true test begins now, as how 2015 volume will fare compared to 2014
- 09:45:46 [Jan Harvey](#) thomsonreuters.com How much more important to the overall import picture are shipments to other centres like Beijing and Shanghai becoming now?
- 09:46:07 [Samson Li](#) thomsonreuters.com Hong Kong is still the most important hub, and will remain so for some time. As mentioned, it makes business sense for gold fabricators in Shenzhen to choose the Hong Kong route over others.....
- 09:46:28 [Samson Li](#) thomsonreuters.com Although officials are encouraging importers to use more of the Shanghai route, it is still relatively costly, and logistic wise is still not as smooth as the Hong Kong option....
- 09:46:48 [Samson Li](#) thomsonreuters.com We estimate around 70% of China's total gold imports would still have passed through Hong Kong in 2014. Direct shipments to Shanghai in terms of overall proportion will continue to increase, however, while direct shipments to Beijing are still at very low levels.
- 09:47:57 [Jan Harvey](#) thomsonreuters.com Some people see withdrawals on the Shanghai Gold Exchange as a proxy for Chinese demand. Do you think this is valid?
- 09:48:31 [Samson Li](#) thomsonreuters.com It depends on the methodology used. For example there are refiners that would, at times, withdraw 9995 gold bars from the SGE, refine it into 9999 bars whenever there is profitable opportunity, and then deposit it back into SGE vault.....
- 09:49:08 [Samson Li](#) thomsonreuters.com These transfers can be misconstrued as demand. There are also other organisations that may count

Chinese gold imports a proxy for overall demand. However GFMS is different. We have always reported demand through jewellery fabrication & consumption; coin fabrication & sales; bar investment; industrial & electronic uses only after it been passed via the importing banks down through the supply chain.

- 09:51:23 [Jan Harvey](#) thomsonreuters.com You mention that jewellery buying in China was down last year. What sort of trends were you seeing, and how did that compare to previous years?
- 09:51:45 [Samson Li](#) thomsonreuters.com It is somewhat unfair to compare China's jewellery demand in 2014 to 2013, as 2013 is a year of anomaly and many seasoned industry participants claimed they have never seen something like that in the last 30 years.....
- 09:52:04 [Samson Li](#) thomsonreuters.com Only the first quarter in 2014 outperformed the first quarter in 2013, as the gold buying frenzy did not start until April 13. The jewellery demand in 2014, however is comparable to 2012. The relative low volatility in the gold price, especially during the first half of the year, have left those bargain hunters waiting on the sidelines.
- 09:52:27 [Jan Harvey](#) thomsonreuters.com How else was gold being used in China, if not for jewellery?
- 09:52:41 [Samson Li](#) thomsonreuters.com Mostly in coins, bars and industrial use. However, gold leasing activities have also gotten much bigger in China. For example as at the end of June 14, gold holdings of the top 4 Chinese banks rose by 65% year-on-year.....
- 09:52:56 [Samson Li](#) thomsonreuters.com Gold does not provide interest if you do not lend it out. Thus banks are keen in lending their gold to maximize their income; on the other hand, in theory at least, only participants in the gold mining/jewellery businesses are allowed to borrow gold. For companies who can borrow gold, they are happy to borrow as they only need to pay ~4% on their gold loan, compared to 6%-8% on monetary loan.
- 09:53:56 [Jan Harvey](#) thomsonreuters.com How was coin and bar demand?
- 09:54:13 [Samson Li](#) thomsonreuters.com Both demand for coins and bars have retreated in 2014, dropping 13% and 53% y-o-y respectively. Other than a lack of price volatility, the anti-corruption policy that discourages gifting has had a huge impact not only on luxury goods, but on gold as well.....
- 09:54:35 [Samson Li](#) thomsonreuters.com When people are worried being accused of

corruption they tend to steer away from gifts that could be misconstrued by authorities and this is continuing to have a significant impact on demand in both of these sectors, especially the latter.

- 09:54:45 [Jan Harvey](#) thomsonreuters.com Turning to this year, how has demand been in the run-up to the Lunar New Year holiday?
- 09:55:05 [Samson Li](#) thomsonreuters.com The demand has been much better compared to November and December as industry participants are stocking up anticipating the Spring Festival. However unless there is a sharp movement in gold price to the downside, we expect gold demand to be weaker compared to same period in 2014.
- 09:55:52 [Jan Harvey](#) thomsonreuters.com How are you expecting imports, on the one hand, and underlying demand on the other to look in the year as a whole?
- 09:56:29 [Samson Li](#) thomsonreuters.com In the absence of price volatility, we think Chinese gold demand (including gold imports) may slightly retreat in 2015. The local economy still faces a massive challenge this year, and with the common belief that the local stock market is in a bull market it may hamper the attractiveness of gold as an investment, at least in the short run.....
- 09:56:49 [Samson Li](#) thomsonreuters.com On the other hand, if RMB continues to depreciate, it should enhance gold's investment status, but this effect will take a longer time for the Chinese people to realize. If gold price falters however, say towards \$1,100 level or even lower, we expect Chinese demand will pick up sharply.
- 09:59:51 [Jan Harvey](#) thomsonreuters.com Is it possible to say whether prices will have more of an influence on Chinese demand, than Chinese demand will have on prices?
- 10:00:31 [Samson Li](#) thomsonreuters.com Chinese gold demand is very price sensitive - it is apparent that on days that international gold price surged, the Chinese gold premium shrinks, or even trading at a discount....
- 10:01:08 [Samson Li](#) thomsonreuters.com it means demand, especially investors, are mostly bargain hunters....
- 10:02:01 [Samson Li](#) thomsonreuters.com During 2013, Chinese gold demand was extraordinary, but it was not enough to offset the gold liquidation seen in the financial markets. For example, the Gold ETF lost 880 tonnes that year...
- 10:02:50 [Samson Li](#) thomsonreuters.com Having said that, Chinese demand is still a very important market force, and at least it formed a

very strong support in the gold price whenever Chinese demand picked up...

- 10:03:54 [Samson Li](#) thomsonreuters.com For example, we heard there were some bargain hunters in China buying gold when gold price was as low as around the \$1,100 level towards the end of last year. So if gold price falls again this year, at least the Chinese demand should pick up and to provide certain support....
- 10:04:34 [Samson Li](#) thomsonreuters.com In the long run, when Chinese gold demand evaluates further, and without the liquidation from the Western countries and the financial markets, then Chinese gold demand will have a bigger influence on gold price.
- 10:05:18 [Jan Harvey](#) thomsonreuters.com Thanks, Samson. And thank you very much for joining us today!
- 10:05:28 [Samson Li](#) thomsonreuters.com Thank you, it's my pleasure.