



RETROSPECT AND PROSPECT OF CHINA'S GOLD MARKET

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Conference: LBMA's Annual Conference is the most incredible and magnificent event in the global precious metals market.

People: I met with Dr. Stewart Murray, the Chief Executive and Mr. Kevin Crisp, the former LBMA Chairman last May in Beijing.

Venue: Hong Kong was a traditional trading hub for gold in the past decades.



2004 LBMA Shanghai Conference

Governor Zhou Xiaochuan of PBC : Three Transformations Strategy



Three Transformations Strategy

- Commodity Market ▶ Financial Investment Market
- Spot Market ▶ Derivative Market
- Domestic Market ▶ International Market

In 2011, < Opinions to Boost the Development of China's Gold Market > was issued by PBC, Ministry of Finance, State Administration of Taxation, National Development & Reform Commission, Ministry of Industry & Information Technology and CSRC.



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The structure of China's gold market: 2 Exchanges + 1 OTC Market



上海黃金交易所 SGE: Spot & Deferred Business



上海期貨交易所
Shanghai Futures Exchange SHFE: Futures Business



Chinese Commercial Banks: Investment Business



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The market reform was successful and fruitful.

Achievements: No.1 Gold Producing Country

No. 1 Gold Consuming Country

SGE: No. 1 Spot & Physical Gold Trading Center

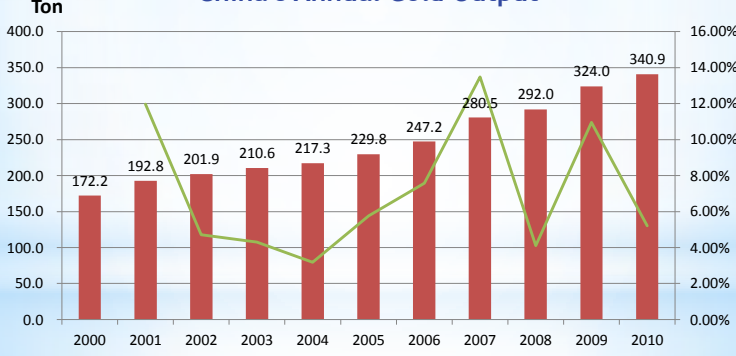
SHFE: No. 4 Gold Futures Trading Center



Mission One

Transform from a commodity market to a financial investment market.

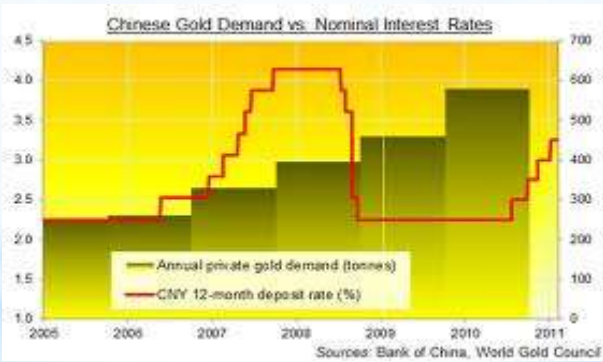
China's Annual Gold Output



Production in 2011: 360.96 Tonnes



Also in 2011, China's annual gold consumption volume reached 761 tonnes.





SGE attracted more financial institutions to enter into the market and offered both the spot and deferred contracts to the individual investors.

SGE	2008	2009	2010	2011	2012
Financial Members 	26	29	30	31	33
Individual Clients 	1.1 million	1.5 million	2 million	2.6 million	3 million



More than 30 Chinese commercial banks have conducted gold investment business and offered various products, including physical bars and paper gold.

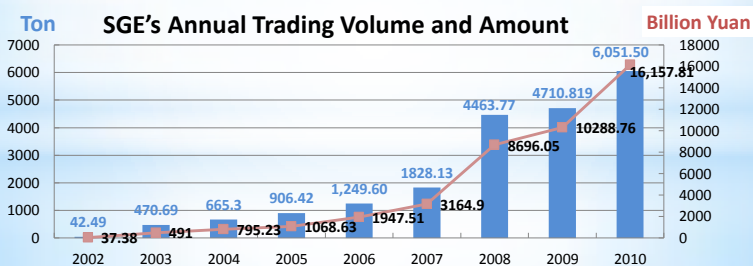




Mission Two

Transform from a spot market to a derivative market.

In 2004, SGE successfully launched the deferred trading product. From 2008, gold deferred trading has accounted for over 60% of SGE's gold market for three consecutive years and in 2011, the percentage rose to 73%.



On Jan 9th 2008, with the approval of CSRC, SHFE launched the gold futures contract.

Shanghai is now the world No.4 biggest gold futures market just behind New York, Tokyo and Mumbai.

Chinese commercial banks have gradually offered gold forward, swap and options contracts to their customers.



Mission Three

Transform from a domestic market to an international market.



In November 2005, SGE launched the night trading session.

The night trading session: 21:00 pm – 2:30 am (Monday to Thursday), overlaps with the morning trading session in New York and the afternoon trading session in London.

The night trading session has almost accounted for one third of SGE's total trading volume.





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In 2008, SGE absorbed 4 foreign banks as its international members.



HSBC Standard Chartered
Scotiabank ANZ

Now SGE has 9 international members from U.S., U.K., Canada, Australia, Switzerland and Singapore.



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In 2010, PBC granted another 5 Chinese commercial banks with the gold importation licenses. Now, the total number of the Chinese banks with the importation licenses rose to 9.



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中國農業銀行 AGRICULTURAL BANK OF CHINA
ICBC 中國工商銀行
中國建設銀行 China Construction Bank
中國民生銀行
深圳發展銀行 SHENZHEN DEVELOPMENT BANK
交通銀行 BANK OF COMMUNICATIONS
興業銀行 INDUSTRIAL BANK CO., LTD.
上海銀行 BANK OF SHANGHAI



Market development is sound and stable.

Efforts to safeguard the fruits of the development:

1. Prevent the reconstruction of the gold trading centers.
2. Eliminate the illegal market, while guide the investors to trade in the legitimate platforms.



Future Development of China's Gold Market





Step One: Ensure the development orientation of the market.

- Establish a more mature market system
- Promote the product innovation
- Satisfy the growing demand in our market
- Give full play to serve the country's real economy



Step Two: Perfect the laws, rules and relative policies.



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Step Three: Perfect the mechanism of risk aversion and investors protection.

- OTC Market -- Dodd Frank Act
- Self-disciplinary management
- Strict regulation



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Step Four: Strengthen the market system construction and accelerate the pace of product innovation.

Price Quoting System



More than 11,000 institutions

Gold Leasing & Lending Market

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Step Five: Promote further opening to the outside world.



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That's all and thank you!