CHINA GOLD MARKET REPORT 2010


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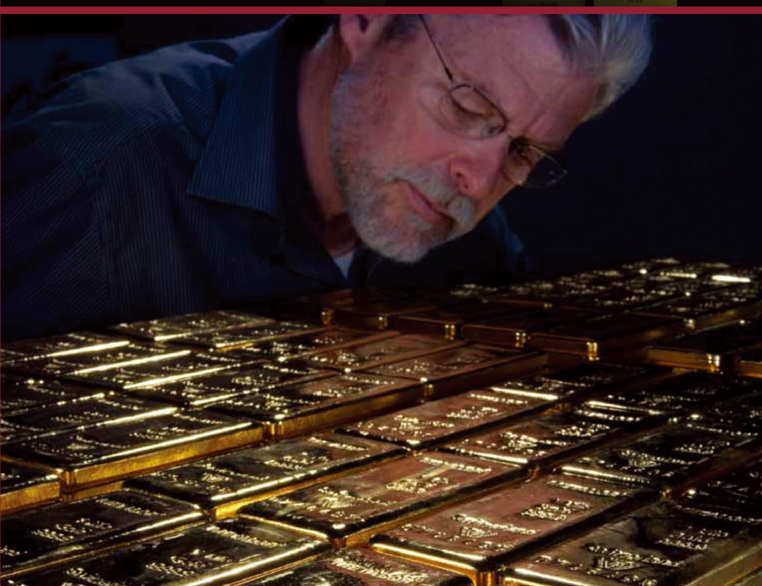

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Chapter I

Introduction

2010 is the ending year of China's *Eleventh Five-Year Plan*. During this period, despite of the global financial and economic crisis, China's gold market enjoyed rapid development and made noteworthy achievements. In 2010, People's Bank of China (PBC) in conjunction with National Development and Reform Commission (NDRC), Ministry of Industry and Information Technology (MIIT), Ministry of Finance (MOF), State Administration of Taxation (SAT) and China Securities Regulatory Commission (CSRC) jointly issued *Guiding Opinions on the Promotion of the Gold Market*, stating that gold market growth is not only an integral part of China's financial market, but also a necessity to meet people's needs. In 2010, China's gold mining industry saw the gold production score a new high on the basis of sustainable development, ranking first in the world for four consecutive years. The physical gold market at Shanghai Gold Exchange (SGE), the gold futures market at Shanghai Futures Exchange (SHFE), and the OTC gold market at commercial banks were all developing very fast.

In 2010, China's gold production, profit, total industrial output value and other major industrial indicators all topped historical highs. China's gold production in 2010 amounted to 340.876 tons at a new record high, an increase of 8.57 percent or 26.896 tons over 2009, remaining Top 1 in the world for four consecutive years. In 2010, the gold industry achieved a gross industrial output value of RMB 229.2879 billion, an increase of 66.72 percent year on year. It took only two years for this sector to exceed 200 billion *yuan* since it topped 100 billion at 118.3006 billion *yuan* in 2008.

The first decade of the new century proved to be an unprecedented growing period for China's gold industry with a great potential for sustainable growth, which is an important incentive for an increase of the supply capacity of China's gold market. However, this has not minimized the supply gap on our domestic gold market because of China's heritage of gold culture and Chinese people's gold investment fever driven by the bullish market after its opening up has pushed the gold demand to a peak.

From 2006 to 2010, due to the sustained and rapid development of the national economy and the increase of residents' income, more and more people began to take interest in gold investment. SGE, under the leadership of the PBC, seized the opportunities to develop the gold market and guarded against the risks at the same time, thus making remarkable achievements in infrastructure development, market regulation, business innovation, risk management and market cultivation. SGE saw active trading of all kinds of varieties with the trading volumes of gold and silver continuously increasing by leaps and bounds, attaining all its business objectives stated in the eleventh *Five-Year Plan*. As a result, SGE's functions in the market development of gold production, distribution and consumption, discovering gold price and regulating domestic gold transactions have been given to full play. SGE has evolved into a gold market where spot and deferred gold contracts are traded between enterprises and banks and where commercial banks act as agents of individuals to do gold transactions. After several years of development, a large number of professionals in gold investment have grown up from the domestic gold market, and professional investment institutions and public investors in China began to know the gold investment market. So far, SGE's gold investment market has developed into one of the investment channels for domestic funds and an integral component of China's financial market. In 2010, SGE played a bigger role in allocating resources on the financial market. With a smooth operation and rapid growth of trading volume and amount, SGE has become the world's largest floor physical gold market. In 2010, the total turnover of all gold varieties on the SGE amounted to 6,051.5 tons, up by 28.46 percent year on year, with a total value of 1.615781 trillion *yuan*, up by 57.04 percent year on year. Given better-established market players, steady growth in the number of clients, safe and smooth settlement and physical delivery, the market has become more and more influencial with improved risk management and enhanced market influence.

In 2010, Shanghai Futures Exchange adhered to the principle of standard regulation, reinforced the market systems, and prudentially developed China's futures gold market. Focused on functioning the market, on the one hand the Exchange endeavored to improve its gold futures business, and on the other it built up the risk management capacity, enhanced members' self-disciplining and guided financial institutions to manage risks by employing gold futures. In 2010, the turnover volume of gold on Shanghai Futures Exchange throughout the year totaled 6.794million lots (a total of 6,794 tons), with a total value of 1.83 trillion *yuan*, growing by 19.77 percent year on year.

In 2010, all kinds of gold business flourished at China's commercial banks. An increasing number of commercial banks got engaged in the gold market. As the business scaled up with an extending outreach, commercial banks began to play an increasingly prominent role in China's gold market. Currently, SGE has 25 member commercial banks and those that serve as agents for individual investment in physical gold at the SGE have also increased to 16 from 13 at the end of 2009. The gold trading volume of commercial banks at SGE accounted for a remarkably higher percentage of the total gold trading volume. In 2010, the turnover volume reached 3,489.88 tons, a year on year increase of 56.09 percent, accounting for 57.67 percent of the total, an increase of about 10 percent. The number of individual clients through agent commercial banks for investment in physical gold at SGE continued to grow at full speed, an increase of over 90 percent in 2010 year on year. As of the end of 2010, each and every individual client had accessed the SGE gold market through an agent commercial bank at SGE. In the face of a booming gold market, commercial banks have enhanced risk management and internal control regarding the gold business; as a result, all kinds of gold businesses developed very fast and the overall market also exhibited a sound momentum in performance.

Chapter II

Overview of the Macroeconomic Environment and the International Gold Market in 2010

I. Overview of the Global Macroeconomic and Financial Environment

(I) Overview of the global macroeconomic environment

The world economy was picking up during 2010, but it was not a smooth recovery: the implementation of the economic stimulus policy was followed by inflation, fiscal deficits, and even the outbreak of a debt crisis across Europe. The recovery was also uneven, mainly exhibited in the weakened recovery momentum in major developed economies; for emerging and developing economies, given a severe external trade context, their recovery was mainly driven by domestic demand, and thus imported inflation and domestic inflation became new concerns for these countries.

In 2010, the sovereign debt crisis broke out in Europe, sovereign bonds issued by Greece and several other countries were downgraded, casting a gloom over the market. In addition to the monetary and fiscal policy adopted to stimulate the economy, European countries also put 91 banks under pressure testing, which worked very well in restoring and reinforcing market confidence. In the second half of 2010, although the debt crisis had not completely ended in Europe, accompanied by the financial crisis in some countries such as Spain, the economic environment and the export situation had improved across the entire Euro zone, European deficit management strategy promoted economic growth, and the endogenous dynamics were in a constant recovery process.

Driven by the loose monetary and fiscal policy, the US economy picked up in the first two quarters of 2010. However, after the outbreak of the debt crisis in Europe, data showed a poor performance in terms of economic growth and employment in the US, indicating a slack economic recovery. In late 3rd quarter, improvement was observed in US economic figures, especially the non-agricultural employment data which greatly contributed to stronger market confidence. The economic restructuring continued, while the growth began to slow down. In November, the Fed Reserve officially announced the resumption of the quantitative easing monetary policy (QE2), stipulating a further purchase of long-term treasury bonds valued at USD 600 billion (averaged at USD 75 billion per month), and the decision to keep interest rates at between 0 to 0.25 percent over a longer period of time. The policy encouraged the market confidence in the future economic recovery; as a result, the country's major stock indexes and the dollar index both rose to different degrees in the fourth quarter of 2010.

The restorative growth trend in non-European economies, especially emerging economies, was less affected by debt problems in Europe. Given the domestic and international economic stimulus as well as the easing fiscal and monetary policy, the inflation pressure escalated, followed by increases in the interest rate in resource exporters such as Australia and India. After several increases of the deposit reserve ratio, China's benchmark deposit and lending interest rates were also raised.

According to IMF, the global economic growth in 2011 will be 4.2 percent, while US GDP growth will be 2.3 percent, down by 0.3 percent over 2010, and EU GDP growth 1.7 percent, the same as in 2010.

(II) Overview of the global financial market

In the first half of 2010, the European debt crisis and the uncertainty of world economic development led to a strong inclination toward risk aversion in the financial market. In particular, during the second quarter, the stock market and other high-risk investment markets showed a mediocre performance, while the yields of treasury bonds and gold rose in the US. As the debt crisis was over in Europe, in the third quarter the market risk-taking appetite started to rise, reflected by the warming up stock market and its more gains. With the economic recovery in Europe as well as in the emerging economies, resource commodity prices rose faster and the commodities such as crude oil and base metals yielded high in the third quarter. In the third quarter, all of the world's major stock indexes rose to varying degrees against fallen dollar index, the prices of commodities grew considerably and the crude oil and gold priced high. As the economy picked up and market confidence got restored, the major stock indexes and commodity prices continued the upward trend of the third quarter into the fourth quarter.

1. Stock Market

New York's main stock indexes witnessed a upward trend in 2010, each ending up at an annual yield of 10%+. In 2010, the main stock indexes fell after rise in January, rallied in February and March, tumbled in Q2 and rebounded with volatility in Q3 and Q4, a sign of economic recovery.

Table 2-1 The world's major stock indexes and commodities in 2010

Index	Opening price on the first trading day	Closing price on the last trading day	Highest price	Lowest price	Yield
Dow Jones Industrial Index	10436.81	11577.51	11625.00	9614.32	10.93%
NASDAQ Index	2294.41	2653.16	2675.26	2061.14	15.64%
S&P 500 Index	1119.27	1257.64	1262.60	1010.91	12.36%
USD Index	77.89	78.98	88.71	75.63	1.40%
Crude Oil (USD/barrel)	79.36	91.38	92.05	67.15	15.15%
CRB Index	491.45	629.53	630.45	448.06	28.10%
LBMA gold fixings(USD/Ounce)	1121.50	1405.50	1421.00	1058.00	25.32%
Spot gold Au99.95 on SGE (RMB*yuan*/g)	241.15	301.17	306.00	233.10	24.89%

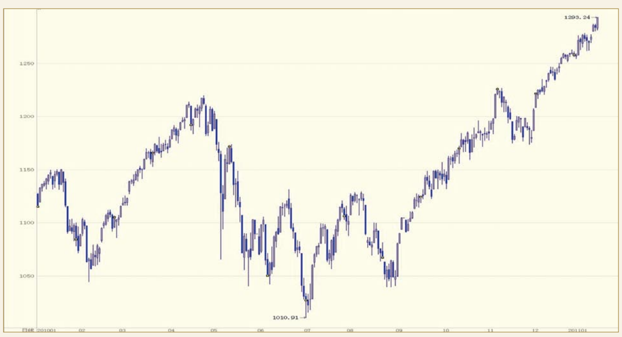
Source: Bloomberg, WGC, SGE

Figure 2–1 Dow Jones Industrial Index in 2010

Figure 2–2 NASDAQ Index in 2010

Source: Bloomberg

Figure 2–3 S&P 500 Index in 2010

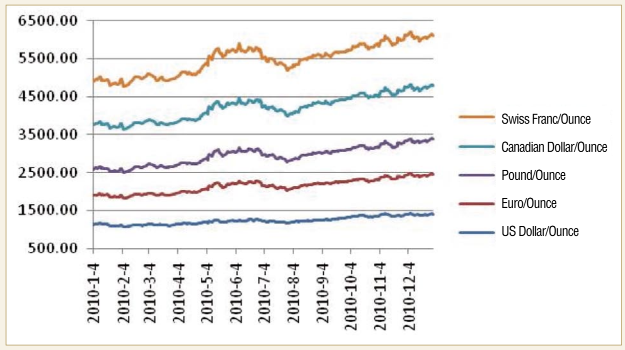


2. Foreign Exchange Market

Gold prices calculated in different currencies generally rose

Given the European sovereign debt crisis in 2010, the Euro-dollar exchange rate exhibited a downward trend. The low interest rate and quantitative easing policy in the US contributed to climbing gold prices, and the US dollar-denominated gold price topped $ 1,400/oz at a record high. Gold prices denominated in other currencies also rose to varying degrees. This was most obvious in the second half of 2010. According to the WGC statistics, in the second half of 2010, US dollar-denominated gold price rose by 13.9 percent, sterling by 11.86 percent, Euro by 6.81 percent, Canadian dollar by 7.04 percent, and Swiss franc almost unchanged.

Figure 2–4 Gold prices calculated in different currencies in 2010

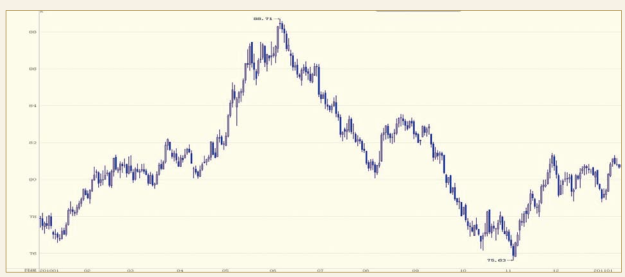


Source: WGC

USDX and the Euro-dollar exchange rate

In the first five months of 2010, as the US economy picked up, the US dollar index was in the rise. But beginning from June, given the approaching US mid-term election and little economic improvement, the US government adopted measures such as issuing more treasury bonds, making the US dollar depreciated by a large margin. The Fed proceeded with its quantitative easing monetary policy and maintained a low interest rate, which injected confidence in the market. In Q3 and Q4, the US dollar index began to rise.

Figure 2–5 USDX in 2010

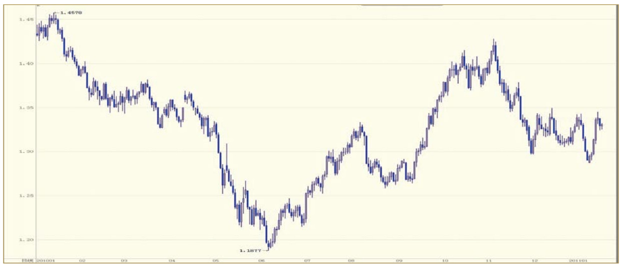


Source: Bloomberg

Euro against dollar in 2010 exhibited an overall downward trend, falling by 6.55 percent. Influenced by the European economy, especially the sovereign debt crisis, the Euro depreciated in the first two quarters, but began to gain its value in July and was again devalued in November as the dollar appreciated. Euro against dollar opened at $ 1.4323/€

on the first trading day in 2010, climbed up to the peak at $ 1.4578/€ on January 13, then went downward till the year's low at $ 1.1877/€ on June 7, and closed at $ 1.3385/€ on the last trading day in 2010.

Figure 2–6 The euro against the dollar in 2010



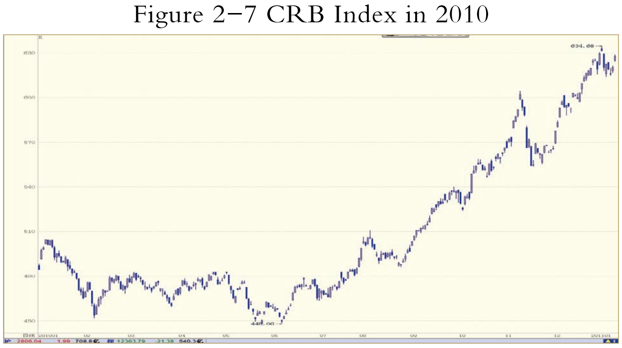
Source: Bloomberg

Gold as a currency for hedge and investment to avoid risks was fully recognized during this period. The data from Bank of International Settlements showed an increase in its gold holdings in Q1 and Q2, which was mainly in the form of mortgage loans by commercial banks. The European sovereignty crisis resulted in a shortage of liquidity in the market, where gold as a unique currency provided commercial banks with liquidity during the financial crisis. In November, as Fed's monetary easing policy (Round 2) boosted market confidence, there appeared a positive correlation between the gold price and dollar price.

3. Commodity Market

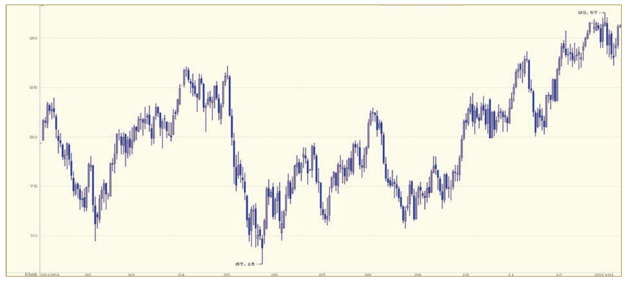
In the first two quarters of 2010, global commodity prices remained volatile and the crude oil prices declined sharply in Q2. In Q3 and Q4, as the economy picked up, the rising industrial demand resulted in the rise of the prices of base metals, crude oil and other commodities.

Figure 2–7 CRB Index in 2010



Source: Bloomberg

Figure 2–8 Crude Oil Prices in 2010



II. Overview of the International Gold Market in 2010

(I) Overview of Major Gold Market in the World

1. London Gold Market

The majority of wholesale trading and settlements of spot gold around the world was completed through the OTC market in London.

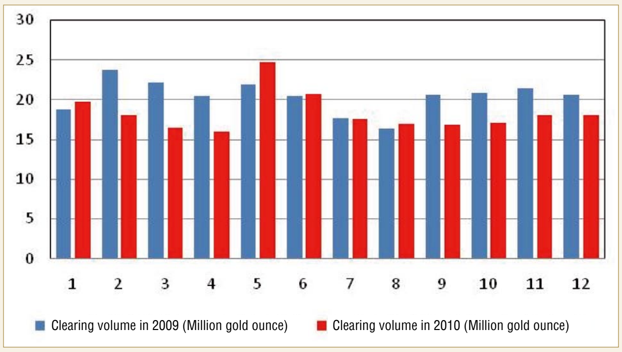
Compared to Exchanges, OTC market is less transparent, with increasing number of transactions subject to netting settlement. Therefore, it is very difficult to figure out the trading volume on the OTC market. As a self-discipline body on London OTC market, LBMA releases the clearing data reported by its members which is usually much smaller than the actual amount traded but still represents a rough picture of global OTC trading of gold. According to the estimates by International Financial Service London (IFSL), about three-quarters of gold trading and half of silver trading in London are not domestic, which means that traders around the world only use London market to complete their transactions.

Table 2–2 LBMA's average daily clearing volume and average daily clearing amount in 2010

Month	Clearing volume in 2010 (Million gold ounce)	Clearing amount in 2010 (USD billion)
1	19.8	22.1
2	18	19.8
3	16.5	18.3
4	16	18.3
5	24.7	29.8
6	20.7	25.6
7	17.6	21.0
8	17	20.6
9	16.8	21.3
10	17.1	23.0
11	18.1	24.8
12	18	25.0

Source: www.lbma.org.uk, 1 gold ounce= 31.1035 g.

Figure 2–9 LBMA's average daily clearing volume in 2009 and 2010



2. COMEX

COMEX is the world's largest gold futures exchange, where gold is mainly traded through standard futures contracts at 100 ounce per lot, as well as mini futures contracts at 50 ounce per lot. In 2010, a total of 139,161.7 tons of gold were traded at COMEX, with an average daily trading volume of 552.23 tons, an increase of 27.24 percent year on year.[1]

3. TOCOM

Gold varieties traded at TOCOM mainly include gold futures and gold options. Gold futures are traded through standard futures contracts at 1,000g per lot and mini futures contracts at 100g per lot. In 2010, TOCOM saw a zero trading volume of gold options, while the trading volume of standard futures contracts amounted to 12,198,340 lots, an increase of 2.39 percent year on year; the trading volume of mini futures contracts totaled 2,477,688 lots, down by 50.55 percent year on year.[2]

4. MCX[1]

As the world's top gold consumer, India has the gold traded mainly at MCX by two major varieties, namely, standard gold futures contracts and Guinea gold futures both settled in Indian rupees. Standard gold futures contracts are traded at 1,000g/lot, while Guinea Gold futures are traded through gold futures contracts at 8g/lot, which is currently the smallest unit available for trading.

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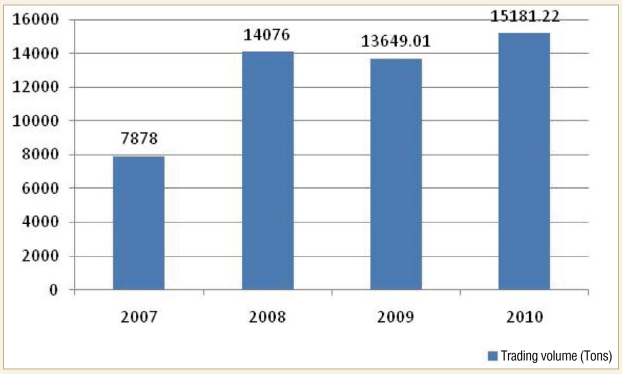
1. The relevant transaction data regarding COMEX and MCX came from PBC's Financial Market Management Department of Shanghai Head Office.

2. The relevant transaction data came from the official website of TOCOM: http://www.tocom.or.jp.

3. In accordance with established practice that London gold fixings P.M. are not available on December 31, the fixings P.M. on December 30 shall be deemed as the price on the last trading day.

Figure 2–10 Gold Futures Trading Volume at MCX from 2007 to 2010



Source: PBC's Financial Market Management Department of Shanghai Head Office.

(II) Operating Characteristics of the International Gold Market

1. In 2010, the average gold price was higher than that in 2009, in volatility at above $ 1,050/ounce keeping rising amid fluctuations.

Figure 2–11 LBMA gold fixings P.M. in 2010

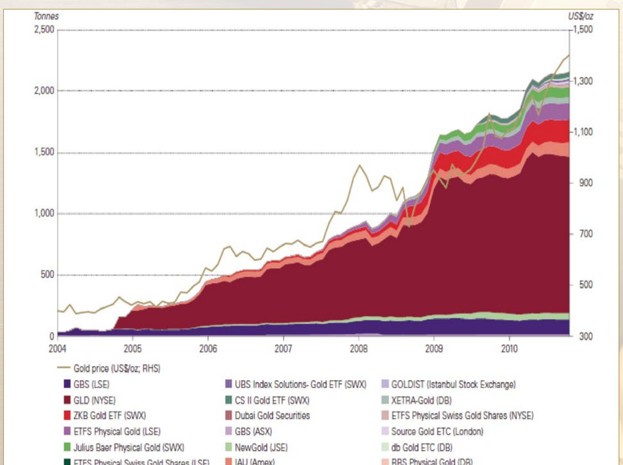
In Q1 it fell slightly amid fluctuations, with a quarterly gain of -0.53 percent. In Q2 it rose to a large extent by 10.73 percent with larger volatility. The price exhibited a "U" turn in Q3, down amid volatility with a small quarterly gain of 5.92 percent. In Q4 it continued to rise in volatility with a quarterly gain of 6.78 percent. In 2010, the price of gold reached a low at $ 1,058/ounce on February 5, topped $ 1,300/ounce in September and $ 1,400/ounce in November and reached the peak at $ 1,421/ounce on November 9. LBMA gold fixings P.M. stood at $ 1,121.5/ounce on the first trading day and $ 1,405.5/ounce on December 30[3], rising by 25.32 percent.

2. The holding positions of the gold ETFs showed an overall increasing trend in 2010.

In 2010, the holding positions of the gold ETFs increased steadily but by a smaller size compared to that in 2009. According to World Gold Council (WGC) statistics, in 2010, the holding positions of the ETFs with gold as underlying assets increased by 361 tons, less than an increase of 617 tons in 2009. As of December 31, 2010, the positions totaled 2167.4 tons, amounting to about USD 98 billion valued by the gold price of the day.

Listed at the NYSE and also jointly listed in Mexico, Singapore, Tokyo and Hong Kong, SPDR Gold Shares (ticker symbol: GLD) is the world's second largest ETF and largest gold ETF. The net increase in its positions in 2010 was 147.1 tons. As of December 31, 2010, the total positions of SPDR Gold Shares reached 1280.7 tons. The world's second largest gold ETF is the ETFS Physical Gold Shares listed in the U.S., London and Switzerland, whose positions totaled 165.1 tons at the end of 2010, an increase of 56.6 tons. In 2010, ZKB Gold ETF listed in Switzerland and iShares Gold Trust (ticker symbol: IAU) traded in New York increased by 42.5 tons and 37.8 tons respectively. In India, previously gold ETF trading was not active and the holding positions were relatively low since physical gold consumption used to be preferred there; however, in 2010 its gold ETF positions also increased by 15 tons. All this shows that ETFs have become a convenient and economical means of investment favored by investors.

Figure 2–12 The positions of 12 major gold ETFs (unit: ton) and gold price (LBMA gold fixings P.M., unit: USD/ounce)



Source: Official websites of the ETFs, Bloomberg, LBMA and WGC

3. The European Central Bank saw a decline in its gold sales, while countries such as Russia and Saudi Arabia constantly purchased gold as a national reserve. Russia overtook Japan as the world's eighth largest gold holder.

On September 26, 2009, the European Central Bank signed the third Central Bank Gold Sales Agreement. By September 26, 2010, the anniversary of this agreement, the total gold sales through banks within the Euro zone only amounted to 6.7 tons, reaching a historical low since the signing of the agreement.

Central banks in countries such as Russia, Thailand and Saudi Arabia have been increasing their gold reserves all the time, while the Vietnamese central bank also stated its intention for further gold imports. Russia exceeded Japan in gold holdings, ranking eighth in the world.

Table 2–3 Top 10 country/region in official gold reserves (See Note 1)

Ranking	Country/ Region	Amount (Tons)	Percentage of gold reserves in total reserve assets (Note 3)
1	USA	8,133.5	75.2
2	Germany	3,401.8	71.2
3	IMF	2,827.2	see Note 2
4	Italy	2,451.8	69.6
5	France	2,435.4	67.2
6	China	1,054.1	1.8
7	Switzerland	1,040.1	17.6
8	Russia	784.1	7.2
9	Japan	765.2	3.1
10	Netherlands	612.5	59.6

Note 1: Data was from IMF's International Financial Statistics as of December 2010, updated to December 2010. However, such data was usually two–month lagging behind, and the countries failing to report their gold reserves to IMF in the last six months were not included in the data.

Note 2: IMF did not disclose how to calculate the relevant proportions.

Note 3: The proportion of gold in national reserves was calculated by the WGC, of which the gold price was calculated at $ 1,346.75/ounce (the gold price by the end of October 2010). The data regarding the value of other reserve assets came from IMF's International Financial Statistics.

Source of the above data: Gold Investment Digest released by the WGC in January 2011.

Chapter III

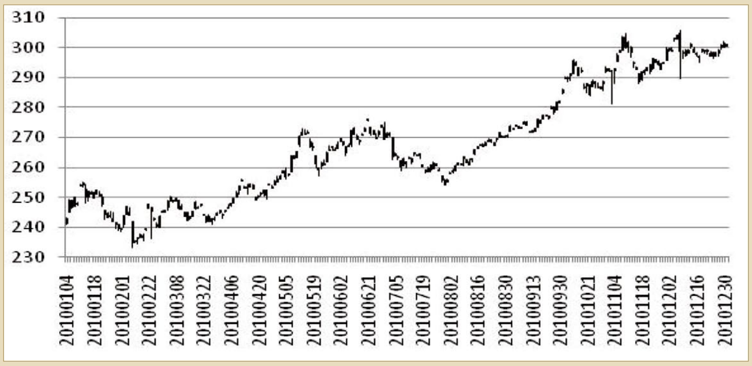
Operation of SGE's Spot Gold Market

In 2010, China's gold market saw a thriving demand for spot gold consumption and investment. SGE ran smoothly, with trading volume increasing and market improving both extensively and intensively.

I. Price Trend of Spot Gold in China's Gold Market

In 2010, China's gold price movement and level remained consistent with the international market, continuing to climb amid volatility at higher prices over 2009. In 2010, the spot gold variety Au99.95 opened at 241.15 *yuan*/g at SGE on the first trading day and closed at 301.17 *yuan*/g on the last trading day, up by 24.89 percent. During this period, the price struck the year's low at 233.1 *yuan*/g on February 5 and year's high at 306 *yuan*/g on December 8.

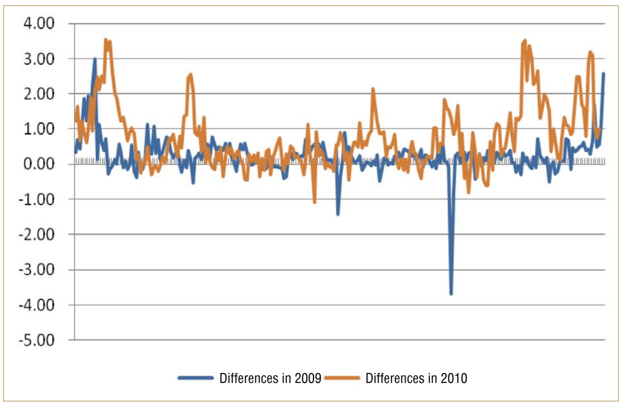
Figure 3-1 Price Trend of Au99.95 at SGE in 2010



Source: SGE

In 2010, given escalated uncertainty of the global economy and driven by risk aversion funds, gold prices at home and abroad repeatedly scored record highs. If we look at the gold price at 3:30 pm (Beijing time) on each trading day when SGE closes, we could find that both the international spot gold price and SGE's closing price of Au99.95 jumped from $ 1,097.4 /ounce and 241.15 *Yuan*/g at the beginning of the year to $ 1,405.1/ounce and 301.17 *yuan*/g at the end of the year. Meanwhile, gold prices fluctuated more drastically, with widening gap between international and domestic prices of gold. In all 242 trading days in 2010, China's gold price was higher than the international price for 206 days and was lower for 36 days. The average price difference between domestic and international gold prices was 0.84 *yuan*/g, an increase of 0.31 *yuan*/g, or 133.33 percent higher than the price difference in the previous year, and the biggest price difference was the decrease from 3.67 *yuan*/g in 2009 to 3.55 *yuan*/g in 2010.

Figure 3−2 Differences between domestic and international spot gold prices in 2009 and 2010 (Unit: *yuan*/g)



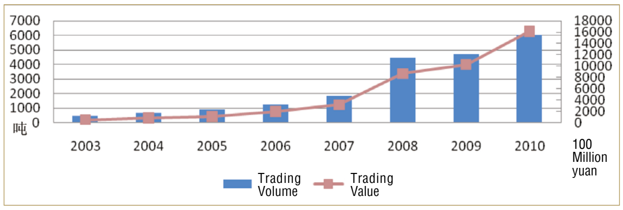
Source: SGE

II. Market Operation

(I) The cumulative trading volume of gold varieties at SGE increased, including deferred spot trading varieties which accounted for a higher proportion in the total trading volume of gold.

Gold traded on SGE amounted to 6051.50 tons in 2010, up by 28.46 percent year on year, with a total value of 1.615781 trillion *yuan*, up by 57.04 percent year on year. The average daily trading volume was 25.01 tons, an increase of 29.52 percent year on year, at a total value of 6.677 billion *yuan*, an increase of 58.34 percent year on year. SGE retained its top position in spot gold trading volume across the global exchange market.

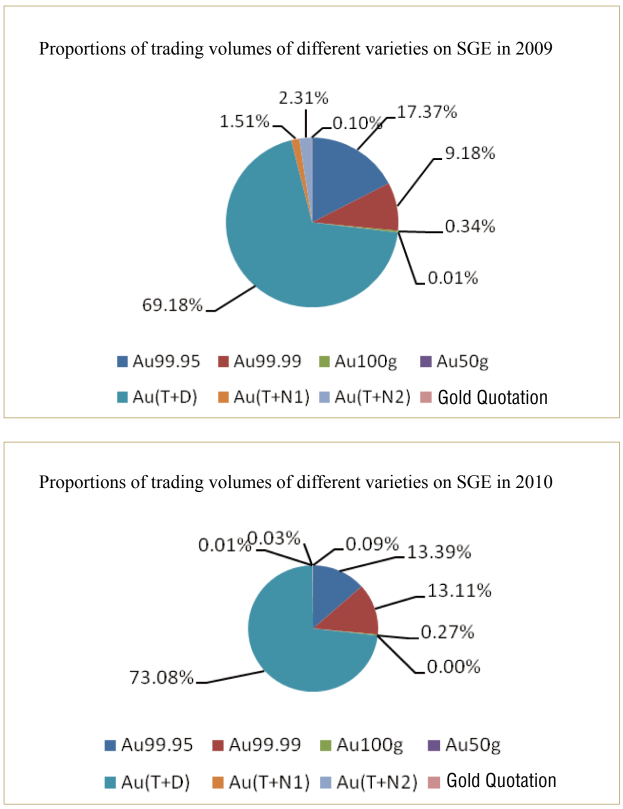
Figure 3−3 Gold trading volume and value on SGE



Source: SGE

The deferred spot trading variety Au(T+D) proceeded with its upward trend in 2010, with a trading volume of 4422.58 tons and a total value of 1.181198 trillion *yuan* throughout the year, up 35.70 percent and 64.78 percent respectively year on year. Its trading volume accounted for 73.08 percent of the year total, up by 3.9 percent over the previous year. The year-end positions accounted for 109.496 tons, up by 15.21 percent year on year.

Figure 3−4 Proportions of trading volumes of different varieties on SGE in 2009 and 2010



Source: SGE

(II) The number of market players including foreign financial members was increasing. With a growing client base, the number of individual clients increased quickly, but institutional clients remained the mainstay.

Approved by the PBC, SGE accepted Credit Suisse AG's Shanghai branch as its foreign financial member in 2010, making Credit Suisse its fifth foreign financial member following Bank of Nova Scotia, HSBC, ANZ and Standard Chartered Bank. As of the end of 2010, SGE had a total of 163 members. Its multi-level membership structure consisting of commercial banks, gold producers, gold processors and investment institutions was quite helpful to manage the risks of the gold market.

As of the end of 2010, SGE had a total of 1.7853 million clients, up by 93.24 percent year on year, of which 6,751 were institutions increasing by 1,317 and 1.7785 million individuals increasing by 860,000. Gold traded by institutions and individuals accounted for 80.93 percent and 19.07 percent of the total on SGE respectively.

(III) SGE reinforced its infrastructure, so that both fund clearance and physical gold clearance and delivery could satisfy the trading demand in a secure and effective manner.

The rise in the trading volume of gold in 2010 led to an increase in the clearance value of fund and physical gold. In 2010, SGE's fund clearance throughout the year amounted to 608.8 billion *yuan*, an increase of 45.65 percent year on year, where the principal and agency businesses stood at 392.9 billion *yuan* and 215.9 billion *yuan* respectively. In 2010, physical gold settled and delivered at SGE amounted to 2913.73 tons and 837.21 tons respectively, up by 14.99 percent and 39.65 percent year on year. During the year, the number of vaults SGE used for delivery rose to 43, with a utilization rate of 66.15 percent.

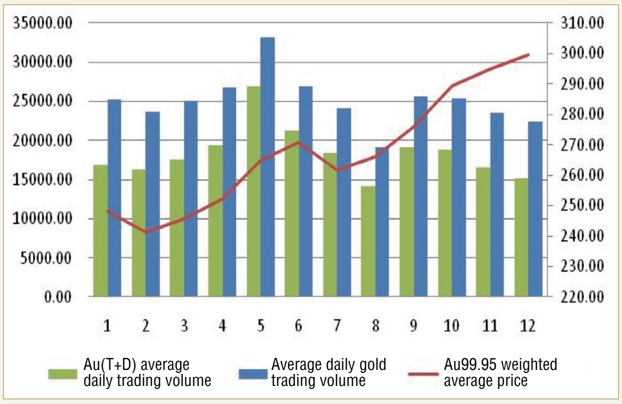
III. Characteristics of China Gold Market in 2010

(I) The role of the gold as a means of risk aversion and wealth preservation became more pronounced, night trading and deferred spot trading were brisk.

The night trading hours on SGE from 21:00 p.m. to 2:30 a.m. of the following day coincide with the trading hours of major international gold markets in the US and UK hours when international gold prices fluctuate frequently. Compared with day trading, night trading tends to focus on financial market activities, such as hedging and investment trading. During the night trading hours through 2010, a total of 1,943.46 tons of gold were traded, an increase of 23.93 percent year on year, accounting for 32.12 percent of the total amount of gold traded, down by 1.17 percent over the previous year.

The deferred spot products are subject to margin trading, where members and clients under the trading mechanism to stabilize the supply and demand through deferred compensation are allowed to choose the day of delivery either at the trading day or extend it to the following trading day. Such products on SGE can function as a means of both investment and consumption. In 2010, 4,422.58 tons of Au (T+D) were traded, up by 35.70 percent year on year.

Figure 3–5 Weighted average gold price, average daily gold trading volume and average daily trading volume of Au(T+D) by month on SGE



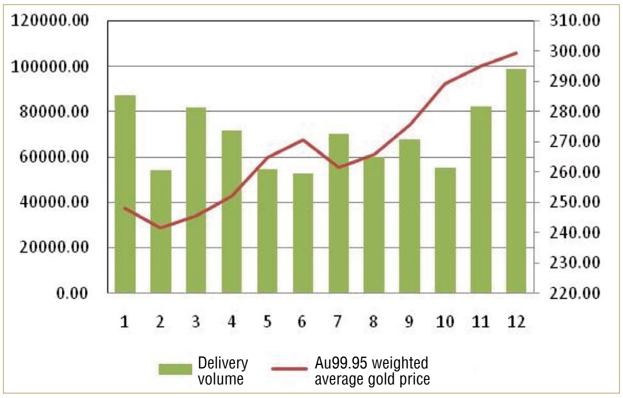
Source: SGE

(II) China saw thriving demand for physical gold consumption and gold investment with seasonal features.

With the increase of its national income, China's domestic gold investment began to heat up. In 2010, at the result of the European debt crisis and the easing policy in various countries, the Chinese economy encountered many uncertainties with greater inflation expectations. In China, gold jewelry and gold bullion met the consumers' demand for wealth preservation due to high purity. As domestic gold investment was further widened, we witnessed booming physical gold investment and consumption; both gold delivery and physical gold imports reached a new high.

The following figure shows the weighted average gold price and gold delivery volume by month on SGE from January to December 2010. From the figure it can be observed that the delivery volume of physical gold was hardly correlated with the price but heavily impacted by season. In Q1 and Q4, the months before and after the traditional Chinese Spring Festival, China's physical gold consumption and investment boomed with a huge delivery volume.

Figure 3-6 Weighted average gold price and gold delivery volume by month on SGE



Source: SGE

(III) Better informed of gold investment and promoted by commercial banks, individual businesses enjoyed rapid development.

Individual clients became more and more interested in gold investment, playing an active role in the gold market, mainly by gold investment as a way of preserving and increasing the value of their assets. At present, individual clients can participate in trading on SGE through the agency of commercial banks. This allows individual clients to trade gold on the Exchange like trading stocks after opening a gold account, while clearing and settlement of physical gold shall be subject to banks. It is recognized by WGC as the lowest costs, secure, open and transparent approach to spot gold investment.

SGE generally concluded its effort to transfer the agency business for individuals investing in physical gold from its general members to commercial banks by June 30, 2010, with all general members' individual clients transferred to agent commercial banks. In 2010, commercial banks actively promoted gold business for individuals, and 8 commercial banks began to engage in deferred business for individuals in addition to the original 7 in the previous year. Gold traded by individuals rose to 19.07 percent of the total gold traded from 9.31 percent in 2009.

(IV) Members and institutional clients remain the key market players, functioning as a backbone; commercial banking saw their businesses flourishing with increased market shares.

As of the end of 2010, SGE had a total of 163 members and 6,751 institutional clients. The principal business of members and the agency business of institutional clients stood as two major components of the trading. In 2010, gold traded through the principal business of members and the agency business of institutional clients amounted to 3264.36 tons and 1633.34 tons respectively, totaling 4897.77 tons, up 625.42 tons or 14.64 percent over the previous year, and accounting for 80.93 percent of the total gold traded. This meant that institutions remained the leading force in the market.

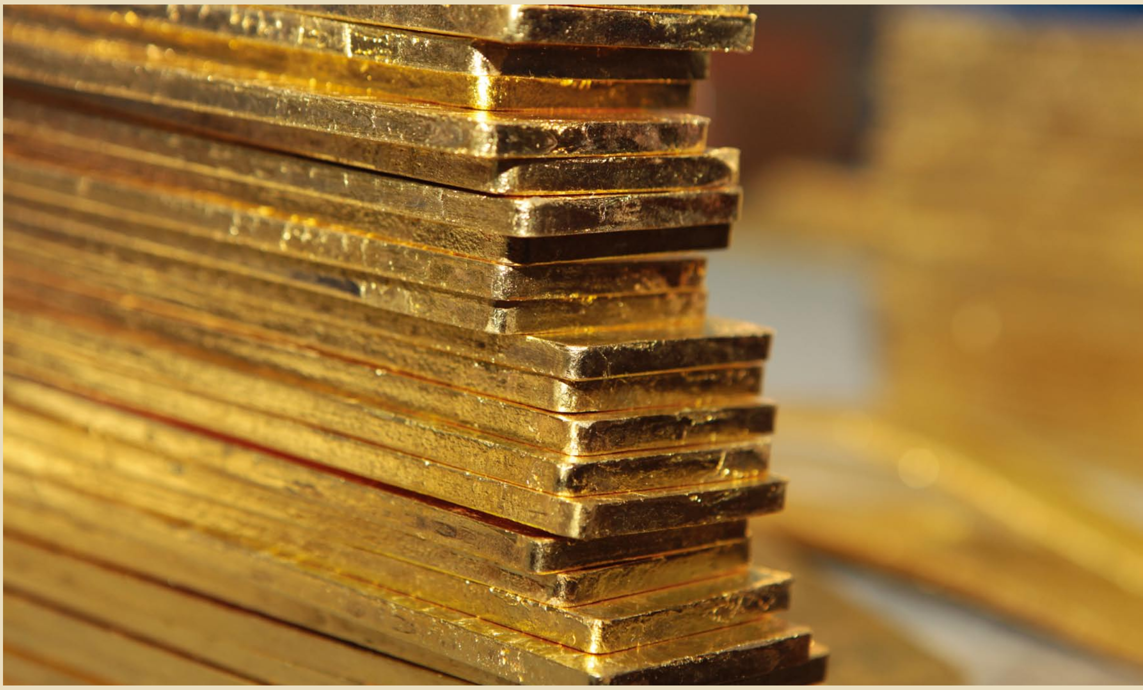
Gold businesses of commercial banks mushroomed on SGE (see Chapter V for specific figures), taking the highest market share in the history of the Exchange. Given the reinforced position and role of commercial banks on the exchange market, the Exchange needs to strengthen coordination and communication with commercial banks, improve its regulation on these banks and work together with them; on the other hand, commercial banks should intensify their risk management measures, not only for their own but also for the rights and interests of its agent clients, especially individuals.

(V) China's gold market became increasingly open to the outside world with more foreign financial members engaged in the market.

In 2010, all of SGE's foreign financial members were more and more involved in the gold market and their trading volume grew rapidly. During their early entry into the market, due to some policy restrictions, their overall trading volume was relatively small, mainly from the principal business. In 2010, the business of SGE's member foreign banks grew rapidly, with 167.53 tons of gold traded, an increase of 131.50 tons over the previous year, up nearly 5 times year on year.

Chapter IV

Operation of Shanghai Futures Exchange's Gold Futures Market



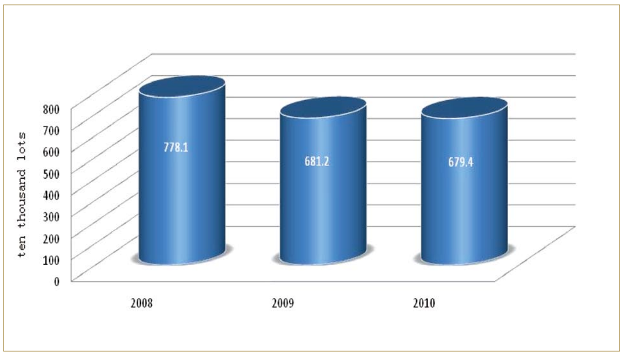
Global economic recovery differentiated in 2010. On the one hand, emerging markets enjoyed relatively good recovery, as the rapid economic recovery resulted in a strong rebound in domestic demand, but quickly rising prices also imposed greater inflationary pressure on these countries. On the other hand, developed economies took a slower pace in the recovery, where the early monetary as well as fiscal expenditure at scale failed to gear the real economy of developed countries back to a self-recovery trajectory, resulting in slack consumption, falling income, high unemployment and other urgent problems. In particular, financial deterioration in the EU countries and the European sovereign debt crisis impeded the recovery of the European economy as a whole. In this context, the interaction between the demands for hedging against inflation and avoiding risks globally in 2010 led to a drastic rise in the international gold price. In 2010, China's gold futures market remained calm and maintained a steady growth trend.

I. Overview of gold futures trading

(I) Trading of gold futures

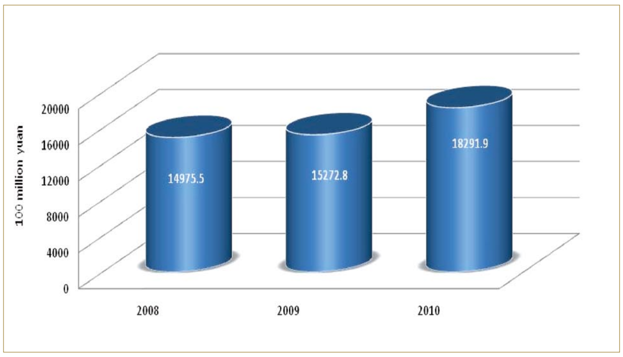
In 2010, gold futures trading on SHFE generally played equal to the previous year. A total of 6.7941 million lots, or 6,794.09 tons, were traded, down by 0.27 percent year on year, while the value topped 1.83 trillion *yuan*, up 19.77 percent year on year. The average daily position in the year was 61,908 lots, up 14.56 percent year on year. The year-end position totaled 78,836 lots.

Figure 4–1 Trading volume of gold futures from 2008 to 2010



Source: SHFE

Figure 4–2 Turnover of gold futures from 2008 to 2010



Source: SHFE

Globally, in 2010, among the dominant gold futures markets, COMEX (100ozs) and TOCOM (1000g) rose by 27.29 percent and 2.39 percent respectively, while MCX (1000g) dropped by 0.76 percent. According to statistics released by FIA, SHFE's gold futures contract held the seventh position in the 2010 global gold futures trading volume rankings.

Table 4–1 Global rankings of gold futures contracts in 2010

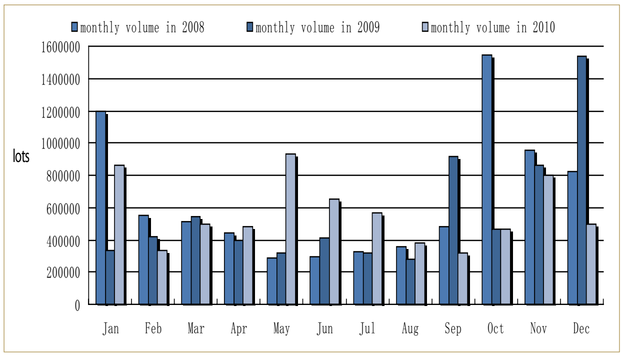
Gold Futures	Unit	Exchange	Volume (lots)	Rank
Gold	100oz	NYMEX	44730345	1
Gold M	100g	MULTI COMMODITY EXCHANGE OF INDIA	15307163	2
Gold	1000g	TOKYO COMMODITY EXCHANGE	12198340	3
Gold	1000g	MULTI COMMODITY EXCHANGE OF INDIA	12052225	4
Gold	1oz	RUSSIAN TRADING SYSTEMS STOCK EXCHANGE	5562423	5
Gold Guinea	8g	MULTI COMMODITY EXCHANGE OF INDIA	4221977	6
Gold	1000g	SHANGHAI FUTURES EXCHANGE	3397044	7
Gold Mini	100g	TOKYO COMMODITY EXCHANGE	2477688	8
Mini Gold	33.2oz	NYSE LIFFE U.S.	2090555	9
Gold	762.2g	THAILAND FUTURES EXCHANGE	792960	10

Note: China's gold futures trading were calculated on a single–side basis.
Source: FIA

1. Monthly volume

Compared with the previous year, from May to July, the monthly trading volume increased considerably, up 192 percent, 58 percent and 77 percent respectively; in September and December, the monthly trading volume decreased drastically, down 65 percent and 68 percent year on year respectively.

Figure 4–3 A comparison of gold futures monthly volume from 2008 to 2010

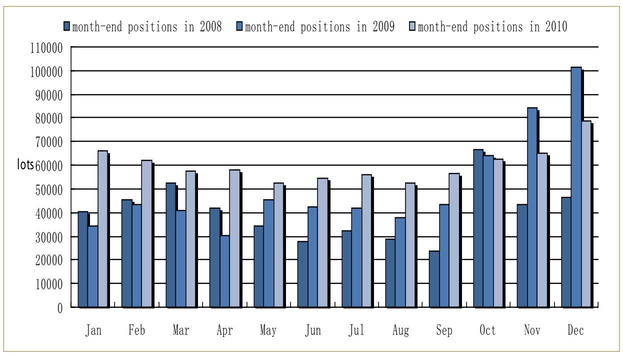


Source: SHFE

2. Month-end position

In the first three quarters of 2010, the month-end positions of gold futures increased over that of the previous year.

Figure 4–4 A comparison of the month–end positions of gold futures from 2008 to 2010

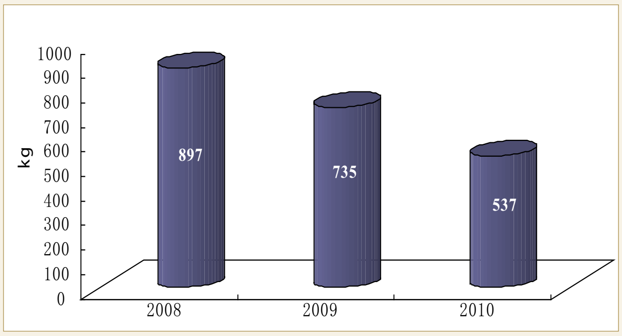


Source: SHFE

(II) Delivery in gold futures trading

In 2010, a total of 537kg gold was delivered against gold futures contracts, down 26.94 percent year on year, averaged at a monthly delivery of 44.75kg. The annual delivery rate stood at 0.01 percent.

Figure 4—5 Gold futures delivered from 2008 to 2010



Source: SHFE

(III) Member participation in gold futures trading

In 2010, 176 SHFE members, including 163 FCM(Futures Commission Merchant) companies and 13 non-FCM companies, were involved in gold futures trading, accounting for 84 percent of SHFE's total members. The amount of gold futures traded by the top 10 members in 2010 accounted for 35.64 percent of the total, a 0.17 percent increase over 2009. SHFE's member trading concentration increased slightly for three consecutive years.

In 2010, SHFE approved Agricultural Bank of China and Shanghai Pudong Development Bank as new non-FCM members. As a result, SHFE so far has seven banks as its non-FCM members qualified for gold futures trading.

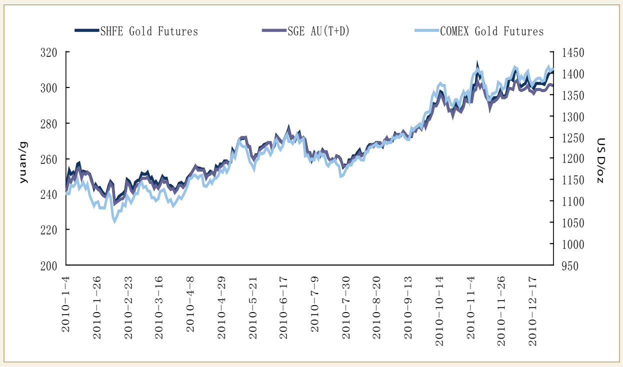
II. Overview of gold futures price trends

(I) Gold futures prices in 2010

1. International prices

In 2010 international gold futures prices experienced the stages of fluctuating, rallying, declining and climbing. For instance, at the beginning of the year, COMEX gold futures opened at USD 1,099.0 per ounce and then slumped amid volatilities to USD 1,050.8 on February 5, the lowest in the year. After that, the prices bounced back all along and topped USD 1,260 per ounce in mid-June at a periodical high, and then moved downward in July to a month-end low at USD 1,155 per ounce. From August on, the prices embraced a rally and kept charging, topping USD 1,370 per ounce in mid-October and thereafter rising with even greater swings until peaking at USD 1,430.2 per ounce on December 7, which was a record high. Then the prices closed at USD 1,421.4 per ounce at year-end. Overall, the price of COMEX gold futures increased by 29.34 percent in 2010.

Figure 4—6 A comparison of domestic and international gold prices in 2010



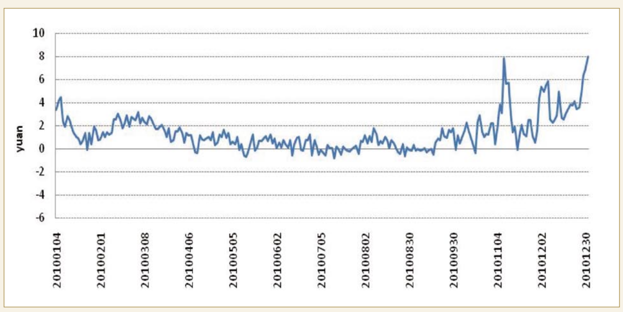
Source: SHFE and Reuters

2. Domestic prices

Influenced by the international gold futures prices, domestic gold futures prices contract coincided with the curve of international gold prices. The domestic gold futures contracts opened at 245.38 *yuan*/g on the first trading day of the year. The prices fell to the lowest at 234.88 *yuan*/g on February 5 and reached their highest at 314.00 *yuan*/g on November 9. Closing at 309.11 *yuan*/g at year-end, the prices registered an increase of 25.97 percent in the year.

The correlation coefficient between gold futures prices on SHFE and COMEX stayed at 0.9919, and that between gold futures prices on SHFE and those of Au(T+D) on SGE remained at 0.9973, showing a strong positive correlation between domestic and international prices. The spreads between domestic gold futures prices and Au(T+D) prices basically ranged between ±2 *yuan* throughout the year, which was fairly stable, except for large fluctuation at the beginning and the end of the year.

Figure 4—7 The spreads between gold futures prices on SHFE and prices of Au(T+D) on SGE



Source: SHFE and Reuters

3. Price risks against gold futures trading

During 2010, no price(up/down) limit occurred to the gold futures market, representing further reduced price risk compared to 2008 and 2009. The Annualized price volatility of gold futures dropped 4.30 percent year on year to 16.61 percent.

Table 4–2 The Annualized price volatility of gold futures by daily yield from 2008 to 2010

Year	2008	2009	2010
Annualized price volatility	31.94%	20.91%	16.61%

Note: The Annualized price volatility was calculated based on the arithmetic square root of the standard deviation of daily yield and the number of trading days throughout the year.
Source: SHFE

(II) Major factors influencing gold prices

In 2010, similar to 2009, boosted by the demands for risk aversion and investment, international gold prices showed a rising trend on the whole, although with repeated local setbacks in varying degrees of no substantial impacts on the growth momentum, mainly as a result of the four factors as follows:

1. European sovereign debt crisis

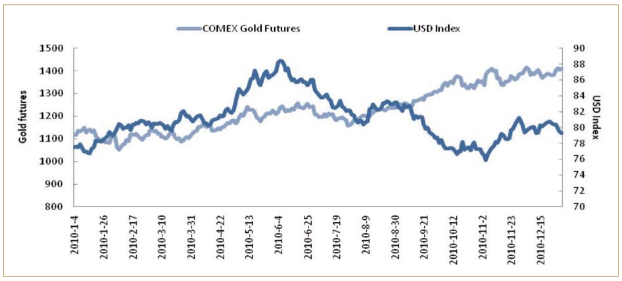
Since 2010, the spread and escalation of the European sovereign debt crisis has become a major factor to drive up international gold prices. This crisis began in December 2009 as the top 3 credit rating agencies lowered their credit rating on Greek sovereign debt. In the first half of 2010, the Euro zone plunged into economic stagnation. With constant uncovering of the serious financial positions of EU member states, global rating agencies further lowered their credit rating on Greek sovereign debt as well as that of Spain, Portugal and some other countries. Concerns about the spread of the European sovereign debt crisis resulted in escalating market panic, and investors continued to flood into the gold market for shelter, which led to a constant rise in the international price of gold, scoring new highs once and again. Into the second half of the year, with the implementation of a rescue plan package and China's commitment to purchase treasury bonds of EU member states, the European sovereign debt crisis was temporarily eased. However, it resurged in November when Ireland's debt woes surfaced. Global rating agencies lowered their credit rating on Ireland, Hungary and Belgium, and the market panic remained the main engine for the rise in international gold prices.

2. US quantitative easing (QE) policy

QE 2 served as the main driving force of international gold prices in the second half of 2010. Since the economic recovery slowed down in April 2010, the US has been challenged by a deflation dilemma in income decline, weak consumption and asset depreciation, with increasing market expectation for the Fed to take further quantitative easing policy. On August 10, the Fed issued a cautious economic outlook and announced plans to reinvest in the market by repurchasing treasury bonds. At the end of September, the Fed said in a statement about its intention "to provide additional accommodation if needed to support the economic recovery and to return inflation". On November 3, the Fed announced its launch of QE 2, intending to purchase $600 billion long-term treasury securities by the end of Q2 2011 to further stimulate the country's economic recovery. An accommodative monetary environment and market expectation greatly promoted the rising international gold prices in the second half of the year.

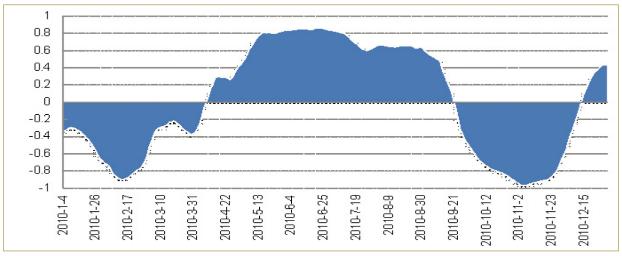
USD Index generally goes in a reverse trend against international gold prices. However, for most of the trading days through 2010, a positive correlation was observed between the two. Impacted by the European sovereign debt crisis, the positive correlation took shape since April. After September, as the crisis got alleviated and the market expectation for QE 2 grew, the negative correlation between the two resumed. In December, with the resurgence of the European sovereign debt crisis, a positive correlation was rebuilt between USD Index and international gold prices.

Figure 4–8 COMEX gold futures prices and USD Index in 2010



Source: Reuters

Figure 4–9 Dynamic correlation between COMEX gold futures prices and USD Index in 2010



Note: The rolling time span is 60 days.
Source: Reuters

3. Global demand for gold investment

In 2010, thriving gold investment demand around the world remained a strong support for rising international gold prices. Year-end positions of SPDR GOLD SHARES, the world's largest gold ETF, rose to 1280.72 tons from 1133.62 tons at the beginning of the year, an annual increase of 13 percent. In August 2010, the PBC in conjunction with NDRC, MIIT, MOF, SAT and the CSRC jointly issued *Guiding Opinions on the Promotion of the Gold Market,* which stipulated the demand to enrich trading patterns, introduce a market maker system and improve the liquidity of the gold market. As the world's largest gold producer and second largest gold consumer, China greatly encouraged the formation of international gold prices by launching this initiative. When holidays of China and India approached in September, the two major consumers of physical gold seeing climbing demands also gave a strong impetus to rising international gold prices.

4. Korean political turmoil

The tensions between South Korea and the DPRK in 2010 also formed a strong supporting force for the short-term international gold prices. The sinking ship "Cheonan" and the Yeonpyeong Island shelling made the international climate more depressed while the market more concerned about risks in the short term, driving hedge funds into the gold market.

III. Construction of the gold futures market

In 2010, SHFE firmly followed standard management and proceeded with the construction of market-based systems, steadily pushing forward the sound development of China's gold futures market. Focused on a functioning market, SHFE extended its gold futures business, enabled itself to control market risks and enhanced self-discipline of its members, playing an active role in guiding financial institutions to employ gold futures to manage risks.

Given its growing size and influence, China's futures market is currently undergoing a critical transition period from quantity expansion to quality building. In the global context of excess liquidity in 2010, strong regulation was imposed on China's futures markets for a further standardized market, which effectively inhibited the potential impact of excessive speculation in the market and maintained the smooth development of commodity markets, including the gold futures market. In addition to reinforced supervision over the futures market, a trial was carried out on a comprehensive assessment of gold futures on the basis of the central goal of promoting the economic growth and serving the national economic development, which laid a solid foundation for building more effective hedging management mechanisms and better-established gold futures trading rules.

Chapter V

Gold Business of Commercial Banks

In 2010, gold businesses of commercial banks grew rapidly. The gold market constantly expanded and engaged increasing number of institutions and its business scope grew at scale with enriched varieties, playing an increasingly important role in China's gold market as a major driving force.

I. Development of gold businesses of commercial banks in 2010

(I) Principal gold business

In February 2010, Shanghai Branch of Credit Suisse became SGE's member, the fifth foreign financial institution member. By the end of 2010, SGE had a total of 25 commercial bank members, including 5 foreign commercial bank members, which in total traded 3,489.88 tons of gold on the Exchange, or 57.67 percent of the total gold traded, an increase of 1,254.07 tons, or 56.09 percent year on year. 19 of them conducted principal gold business, with the volume of such trading amounting to 2,093.71 tons, up 28.8 percent over 2009.

(II) Agency gold business

In 2010, 20 commercial banks took part in SGE's agency gold business and reached a trading volume of 1,396.17 tons, a 128.8 percent increase year on year. Of the figure, agency business on behalf of enterprises was 276.67 tons, up 56.55 percent year on year, accounting for 19.82 percent of the total, and agency trading for individuals was 1,119.5 tons, up 1.58 times year on year, accounting for 80.18 percent of the total agency business for SGE.

Commercial banks' agency business in physical gold on SGE for individual investors remained growing fast this year. A total of 16 commercial banks (3 more than in 2009) had launched the business, which includes two broad categories: investment in spot gold products and Au(T+D). To reinforce risk management and risk control, SGE had basically concluded the transferring of individual clients from its general members to commercial banks by the end of July 2010, and in September 2010 it raised the margin of Au(T+D) to a 10-percent ratio. By the end of 2010, a total of 60.75 tons of spot physical gold were traded on SGE through agency trading for individuals by commercial banks, an increase of 13.34 percent year on year, and agency trading for individuals in Au(T+D) on SGE reached 1,058.76 tons, up 178.7 percent year on year. There were 1.7785 million individual accounts by year-end, up 860,000 or 93.63 percent over the same period of the previous year.

(III) Brand gold sales and repos

As of the end of 2010, 12 commercial banks in China offered operations regarding sales and repos of branded physical gold, namely, Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China (ABC), Bank of China (BOC), China Construction Bank (CCB), China Merchants Bank (CMB), Minsheng Bank, Fudian Bank, Guangdong Development Bank, Ping'An Bank, China Everbright Bank, Evergrowing Bank and Bank of Beijing.

In 2010, a total of 83.46 tons of gold was traded through commercial banks in brand physical gold sales and repos, an increase of 88.99 percent year on year, with a total value of 23.139 billion *yuan*, up 137.32 percent year on year. Among the figures, 80.4 tons of gold was traded in principal business, up 97.4 percent year on year, with a value of 22.286 billion *yuan*, up 147.9 percent year on year; 3.06 tons of gold was traded in agent business, down 10.79 percent year on year, with a value of 853 million *yuan*, up 12.24 percent year on year.

(IV) Account gold business

The account gold business of commercial banks, also known as paper gold business, represents a business model whereby clients purchase paper gold and sell it when gold prices rise for a return based on the quota offered by a commercial bank without any delivery of physical gold, and both clients and the commercial bank gain a profit from the varying spread. The paper gold business falls into the RMB account gold and USD account gold categories. By the end of 2010, five banks in China had provided paper gold business, i.e., Bank of China (BOC), Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), China Merchants Bank (CMB) and China Citic Bank (CITIC).

In 2010, commercial banks accomplished trading of 1,335.37 tons of paper gold, down 14.48 percent year on year, with a total value of RMB 357.56 billion *yuan*, up 7.86 percent year on year. More specifically, the volume of USD account gold traded was 130.22 tons, down 27.81 percent year on year, which was valued at RMB 34.811 billion *yuan*, down 11.09 percent year on year; the volume of RMB account gold traded was 1,205.15 tons, down 12.74 percent, which was valued at RMB 322.749 billion *yuan*, up 10.4 percent year on year.

(V) Gold depository plan

The gold depository plan was first launched in China by ICBC in April 2009. Under the plan, a commercial bank client opens a gold depository account at the bank and deposits gold in accordance with requirements with weights and values of the gold of the commercial bank. The bank automatically deducts corresponding amounts from the client's account on monthly basis in accordance with the client's request. In addition, the client may choose to invest by way of making one-time purchases at some point. With regard to the balance of gold in the account, the client may cash it or obtain physical gold subject to the terms and conditions of the commercial bank. In 2010, a total of 12.28 tons of gold, or RMB 3.529 billion *yuan*, was traded under the plan, up 21.65 and 26.15 times respectively over 2009.

(VI) Gold leasing business

Gold leasing business is a service in which commercial banks lend their gold holdings to other commercial banks as well as gold producers or manufacturers and charge interests as per leasing contract and, upon expiration of the contract, the borrowers pay back the debt in the form of physical gold. The business can be divided into inter-bank lending and leasing to gold producers and manufacturers.

Inter-bank lending means short-term gold leasing between commercial banks whereby the borrower sells the leased gold on the market or uses it to craft its proprietary brand gold bullions and, upon expiration of the contract, purchases gold through the market to repay the lender. In the other category of gold leasing, the gold producer or manufacturer sells the leased gold on the market for cash, and upon expiration of the contract, pays back the commercial bank with gold produced by itself; alternatively, the gold producer or manufacturer uses the leased gold in jewelry production or for other purposes, and upon expiration of the contract, purchases gold through the market using the income from jewelry sales to repay the lender.

By 2010, a total of nine banks in China offered gold leasing business. As of the end of December 2010, gold traded through inter-bank lending business totaled 10.63 tons, up 40.61 percent year on year, with a total value of RMB 2.885 billion *yuan*, up 91.19 percent year on year; gold traded through leasing business totaled 155.8 tons, up 70.66 percent year on year, with a total value of RMB 41.325 billion *yuan*, up 115.26 percent year on year.

(VII) Domestic forward gold business

The forward gold business is an OTC business between commercial banks and their clients, whereby the two parties deliver physical gold on the agreed date in accordance with the agreed price, quantity, purity, specifications and delivery method. The buyer is known as the party with a long position and the seller with a short position. In 2010, the forward gold trading of commercial banks reached 2.5782 million ounces, up 59.09 percent year on year, with a total value of USD 3.275 billion, up 104.94 percent year on year. The forward gold business in RMB was launched first by Minsheng Bank for its non-banking clients in February 2010, with the first deal done between BOCOM and ANZ Bank on SGE in August of the same year. The inception of this business filled the gap in domestic RMB-dominated gold derivatives, and a total of 3.09 tons of gold was traded under this business by the end of 2010.

(VIII) Domestic gold options in USD

In November 2006, BOC took the lead in offering gold options in USD for individual investors, who still is the main player of this business. This innovative gold investment product incorporates the features of futures gold products on the international market and BOC's spot gold trading business (in USD) for individuals. The client pays a certain option premium to the bank based on his or her own judgment on the future trends of gold prices, and then buys a gold option (call/put) with corresponding face value, duration and striking price. If the price change is in favor of the client upon the expiration of the option, he or she may execute the position for a return; otherwise, he or she may choose not to execute the option and only has his or her option premium forfeited. In comparison with the conventional paper gold business, gold options provided the investors with an instrument to short sell gold. In 2010, the gold options business of commercial banks had a total trading volume of 17,400 ounces, or USD 21 million, down 24.02 and 4.55 percent year on year respectively.

(IX) Overseas gold business

Overseas gold business collectively refers to the business deals reached between financial institutions and their counterparties on overseas gold markets. As of the end of 2010, 12 Chinese banks had engaged in this business. In 2010, the accumulated turnover of gold in overseas gold businesses conducted by Chinese commercial banks hit 115.1764 million ounces, with a total value of USD 140.9 billion. To be specific, the gold traded under the contracts of spots, forwards, swaps and options stood at 81.4999 million, 19.7491 million, 13.9074 million and 20,000 ounces respectively, valued at USD 99.227 billion, 24.216 billion, 17.435 billion and 22 million correspondingly.

II. Development of gold businesses of commercial banks in 2010

(I) Increasing number of commercial banks on the gold market

In February 2010, Shanghai Branch of Credit Suisse obtained the membership of SGE and became its fifth foreign financial institution member. At present, SGE have a total of 25 commercial bank members. In August 2010, SHFE approved ABC and Shanghai Pudong Development Bank as its members. Currently, there are 7 commercial banks qualified for principal gold futures trading. In addition, commercial banks serving as agents for personal investment in physical gold at the SGE have also increased to 16 from 13 at the end of 2009.

(II) Extended gold business scope

On the one hand, both principal and agency businesses of commercial banks on SGE have been expanding, with significantly increased market shares. In 2010, the total volume of gold traded by commercial banks on the Exchange increased by over 50 percent, accounting for nearly 60 percent of the total gold trading volume; On the other hand, OTC gold business of commercial banks embraced rapid growth by leaps and bounds. Commercial

Table 5−1 Statistics of domestic proprietary gold businesses of commercial banks from 2008 to 2010

Business category	Product (Unit)	2008		2009		2010	
		Trading-volume	Value-traded	Trading-volume	Value-traded	Trading-volume	Value-traded
Accountgold	Gold in USD (million ounces/billion US dollars)	2.9309	2.537	5.7996	5.734	4.1867	5.147
	Gold in RMB (tons/billion RMB *yuan*)	1332.55	254.63	1381.2	292.348	1205.15	322.749
Physicalgold	Principal (tons/billion RMB *yuan*)	33.12	6.668	40.73	8.99	80.4	22.286
	Agency (tons/billion RMB *yuan*)	4.13	0.818	3.43	0.764	3.06	0.853
Others	Leasing (tons/billion RMB *yuan*)	73.99	14.15	91.29	19.198	155.8	41.325
	Inter–bank lending (tons/billion RMB *yuan*)	11.4	2.016	7.56	1.509	10.63	2.885
	Forward (million ounces/billion US dollars)	5.7485	5.444	1.6206	1.598	2.5782	3.275
	Options (million ounces/billion US dollars)	0.0628	0.0579	0.0229	0.0223	0.0174	0.021

Source: Shanghai Head Office, PBC

banks gave full play to their own advantages backed by brands and channels and spared no effort to expand gold businesses for both institutions and individuals. In 2010, the brand physical gold sales, gold forward, gold leasing, inter-bank gold lending and gold imports & exports conducted by commercial banks all enjoyed rapid increases. Gold business has developed into a new fountain of profit for commercial banks.

(III) Enhanced role of commercial banks in stabilizing the gold market

SGE generally concluded its effort to transfer the agency business for individuals to invest in physical gold from its general members to commercial banks by the end of July, 2010, with all its individual clients incepted by its general members transferred to agent commercial banks for trading. In 2010, there was a constant surge in the number of individual clients to invest in physical gold on SGE through agent commercial banks, an increase of over 90 percent year on year. Commercial banks backed by their good reputation and solid financial strength gave full play to their role as the main channel of brokerage business in the gold market, functioning to maintain market order and reduce brokerage risks.

(IV) Obvious trend of gold business specialization

After ICBC established the Department of Precious Metals in Shanghai in September 2009, BOC's Center of Precious Metals also got listed in Shanghai in September 2010, being the second organization specialized in precious metal business set up by Chinese commercial banks. In addition, in recent years, other state-owned commercial banks and shareholding banks have also set up their own business units specialized in gold trading. With the tremendous progress of China's gold market, a rising proportion of gold businesses in the intermediary business of commercial banks has been observed, and the number of qualified staff involved in gold trading in commercial banks is also increasing. So it is evident that commercial banks are increasingly inclined to specialize their gold businesses.

(V) Consolidated role of commercial banks in connecting domestic and overseas gold markets

While striving to create a brisk domestic gold market, commercial banks are also actively participating in the international gold market, functioning to link the domestic and international gold markets. On the one hand, in 2010 PBC approved four commercial banks (namely the Industrial Bank, Minsheng Bank, Shenzhen Development Bank and Shanghai Bank) to be eligible for businesses relating to gold imports and exports, doubling the number of Chinese commercial banks qualified for this business. Gold imports and exports of the commercial banks have played a vital role in balancing domestic gold market supply and demand and stabilizing the gold price gap between domestic and international gold markets. On the other hand, commercial banks have taken the initiative to engage in principal gold trading in overseas gold markets, including spot gold, gold forwards, gold options and other proprietary transactions. In 2010, the gold traded by commercial banks in overseas markets exceeded that traded through their principal business in the domestic gold market.

Chapter VI

Gold Supply and Demand

I. Gold supply

(I) Mineral gold

1. Geological gold resources

Geological resources of gold are widely dispersed in China, almost prevailing across all provincial jurisdictions. However, those of Beijing, Tianjin, Shanghai and Ningxia were minimal and virtually unworthy of mining for industrial purposes. Gold dressing and smelting enterprises in Tibet has not yet been put into production, while Shanghai and Ningxia produce gold as a by-product of the nonferrous production, and therefore in 2009 gold production was reported in the rest 27 provinces.

Geological gold resources serve as an underlying asset for gold production. After topping 1,000 tons in 2007, China's proven reserves of gold rocketed beyond 6,000 tons to 6,327.9 tons in 2009, elevating the country's ranking of proven gold reserves from 5th to 2nd in the world, only next to South Africa. China's proven reserves of gold kept rising for 7 consecutive years, hitting a record high.

The country's proven gold reserves in 2009 consisted of 4,399.3 tons of rock gold reserves, 520.8 tons of placer gold and 1,413.7 tons of associated gold reserves, respectively accounting for 69.52, 8.23 and 22.34 percent of the total proven reserves of gold.

Seeing from the three major economic zones, the gold reserves in the eastern 12 provinces (autonomous regions/municipalities) totaled 1,655.4 tons, or 26.16 percent of the national total, up 1.32 percent over 2008, or an increase of 376.71 tons. The major driver of growth in this region was Shandong Province, whose gold reserves increased by 171.51 tons or 23.43 percent.

The gold reserves in the central 9 provinces (autonomous regions/municipalities) totaled 2,461.2 tons, or 38.99 percent of the total, up 0.6 percent over 2008, or an increase of 182.7 tons.

The gold reserves in the western 9 provinces (autonomous regions/municipalities) totaled 2,211.3 tons, or 34.95 percent of the total, a slight increase of 16.58 tons, but down by 1.93 percent in the proportion of the total reserves, second downward movement following the first fall from No. 1 to No. 2 gold reserve holder of the three economic zones in 2008.

In 2009, proven gold reserves increased in varying degrees in 17 of the 30 provinces (autonomous regions/municipalities) across the country, declined in 6 provinces and remained unchanged in 7 provinces, respectively accounting for 56.67, 23.33 and 20 percent of the total number of provinces (autonomous regions/municipalities). Shangdong, Henan and Inner Mongolia saw the top 3 increases of 171.5, 68.89 and 56.82 tons respectively, while Gansu saw the largest decline in the proven reserves by 67.76 tons.

The top 5 provinces with proven gold reserves were Shandong (903.6 tons), Jiangxi (569.5 tons), Gansu (511.8 tons), Yunnan (377.1 tons) and Henan (369.2 tons), amounting to 2,731.3 tons and accounting for 43.16 percent of the country's total. Their gold production capacity ranked 1st, 3rd, 9th, 4th and 2nd respectively in the country, with a total production volume of 198.244 tons, or 58.16 percent of the country's total.

The availability of geological gold resources is a precondition for the production of gold. The increasing volume of China's proven gold reserves provides the necessary material basis for the sustainable development of our gold production in the new century, showing a growth potential of this sector.

Table 6−1 Geological gold reserves in China's provinces (autonomous regions/municipalities)

Region	Proven Reserves (tons)	Region	Proven Reserves (tons)
Shandong	903.6	Qinghai	161.1
Jiangxi	569.5	Hunan	156.4
Gansu	511.8	Hubei	143.7
Yunnan	377.1	Guangxi	132.3
Henan	369.3	Xinjiang	119.7
Inner Mongolia	354.3	Liaoning	118.4
Heilongjiang	323.4	Guangdong	88.5
Sichuan	311.1	Shanxi	83.0
Shaanxi	296.7	Hainan	32.5
Anhui	232.00	Jiangsu	26.1
Guizhou	271.9	Zhejiang	16.4
Jilin	229.6	Beijing	6.4
Hebei	168.1	Ningxia	1.0
Fujian	162.2	Tianjin	0.5
Tibet	161.50	Shanghai	0.4

Proven reserves: refers to the gross amount of all geological resources identified from the beginning of the exploration of the geological sector to the submission of its geological report, including the reserves gained by mining companies in productive geological work and the newly detected reserves.

2. Mineral gold production

China's total gold production reached 340.876 tons in 2010, up 8.57 percent or 26.896 tons over 2009. Ever since 2000, China's gold production kept rising for 11 consecutive years, recording a new high in history, and also marked the 4th consecutive year of the country's leading position among all gold producers in the world. Including:

China's mineral gold production reached 280.032 tons in 2010, up 7.27 percent and accounting for 82.15 percent of the total gold production of the year; by-product gold production in the nonferrous metals industry reached 60.844 tons, up 17.95 percent and accounting for 17.85 percent of the total. The ratio of the two was 4.6:1 in 2010 against 4.93:1 in 2009, which implied an increase in the proportion of by-product gold by 0.99 percent.

Gold production in the three major economic zones respectively stood at 142.376 tons (eastern), 127.185 tons (central) and 71.316 tons (western), accounting for 41.77, 37.31 and 20.92 percent of the total output. Gold production increased in all three economic zones by different degrees, resulting in changes of their shares: the eastern and western regions experienced a slight decrease of 0.13 and 0.64 percent respectively, while the central region registered an increase of 0.77 percent.

In 2010, gold production increased in 22 of the 27 gold producing provinces (autonomous regions/municipalities) across the country and declined in 5 provinces. Shangdong took the lead, up 12.283 tons with an increase of 14.4 percent, accounting for 45.67 percent in the total increase of 26.896 tons. Fujian saw the largest decrease by 3.293 tons or 15.71 percent.

The top five gold producing provinces in 2010 remained Shandong, Henan, Fujian, Jiangxi and Yunnan, with a combined output of 203.9 tons, approximately 60 percent (59.82 percent) of the total. Of these provinces, only Fujian saw a decrease in the output, while gold production in the other four rose by varying degrees, including big increase in Shandong and Jiangxi.

Shandong remained the top gold producer in the country since 1990s. With substantial increase of its proven reserves of geological resources in recent years, the gold production of Shandong enjoyed a double-digit increase of 10.32 and 14.4 percent respectively in 2009 and 2010, further widening the gap between Shangdong and the second largest producer. In 2010, gold production in Shandong reached 97.586 tons, accounting for 28.63 percent of the national output, an increase of 12.283 tons and 1.46 percent more in the share of China's total gold output than that in 2009.

Comparatively speaking, Jiangxi was a rising star, as its output began to rank among the national top 3 in the new century. Nonetheless, gold production in Jiangxi increased rapidly in recent years, up 12.73, 39.85 and 15.51 percent in 2008, 2009 and 2010 respectively.

The top five gold producers follow two development models. One is the "single-wheel-driven" approach dominated by mineral gold production with little by-product gold production, such as Henan and Fujian, and the other is the "double-wheel-driven" approach that weighs not only mineral gold production but also by-product gold production, such as Jiangxi, Yunnan and Shandong. Nonferrous by-product gold accounted for 88.73, 43.8 and 4.62 percent respectively in Jiangxi, Yunnan and Shandong. A few years before, Shandong began to shift from the first approach to the second one, which blazed a wider trail for China's mineral gold production in the new century.

(II) Scrap gold

Scrap gold refers to gold re-entering into circulation after a complete process of smelting and trading. Gold can be subject to repeated circulation because it is extremely stable and will not turn intangible as time flies. Over thousands of years of human history, 98 percent of the gold produced remains well documented and ready to enter the market as supply. Scrap gold, therefore, is an important source of gold throughout the year and can be divided into the following categories based on the sources:

1. Gold selling of the central bank

Central banks typically have a certain amount of gold reserves, and some central banks also possess huge stocks of gold. In particular, during the 1990s when central banks became net sellers, their gold selling also became a key source of gold supply. However, over the past decade, unlike a number of central banks in western countries, PBC increased its gold reserves for several times instead of selling the reserves; PBC did not sell any gold in 2010, and its gold selling was generally completed through international markets, which meant a zero impact on China's gold supply of the year. Therefore, the impact of PBC's gold selling on China's gold supply is technically theoretical, while the factor that really makes a difference is gold selling of the general public.

2. Gold selling of the general public

Gold selling of the general public consists of two parts:

The first is gold sold by investors in physical gold for cash-out profits. Gold price rose by 26 percent in 2010 and kept rising for 9 consecutive years, so many physical gold investors saw their gold assets drastically appreciated and some sold out their gold to get cash or to conclude profits, consequently increasing the gold supply on market.

Another source of gold supply is offered by recycling gold extracted from used electrical components as well as recycling and re-melting of gold products.

In 2010, gold supply from gold selling of the general public amounted to 255.98 tons, up 9.44 percent over 2009, accounting for 30.58 percent of the year's total supply.

(III) Gold imports

China has been a gold importer since the 1990s.

Table 6–2 China's gold supply structure in 2010

Category	Amount (tons)	Proportion in the total supply (percent)	Gains/ losses over the previous year (tons)	Gains/losses over the previous year (percent)
Mineral gold	340.88	40.72	26.90	8.57
Scrap gold	256.32	30.62	22.43	9.59
Gold selling of the central bank	0	–	0	–
Others	240.00	28.67	205.3	491.64
Total	837.20	100	246.76	41.79

II. Gold Demand

China's gold demand in 2010 can be divided into two main areas, i.e., consumption and investment, falling to six specific aspects:

1. Jewelry fabrication

Starting from 2003, China's gold used in the jewelry industry has been growing for 8 consecutive years. According to the CGA statistics, gold used by Chinese jewelers increased by 5.11 percent over 2008 and reached 357.12 tons. This seems to be a low-key growth rate in the current gold boom, especially given that the amount of gold used in the global jewelry industry turned upwards out of a falling trend.

The reason lies in that a number of jewelers have gone beyond the traditional jewelry fabrication and began to make gold investment products, which was necessarily included in the statistics of gold bullion.

2. Industrial raw materials

According to the China Gold Association (CGA) statistics, the gold used for industrial raw materials (gold used to process gold salt, gold folio and gold thread) totaled 47.38 tons in 2010, an increase of 17.60 percent over 2009.

These gold products as industrial raw materials are widely used in the industrial sectors like electronics, instrumentation, aviation and aerospace, electroplating and electroforming. China's economic development brought about a growing demand for gold raw materials, and thus a gold processing industry is gaining its momentum, which means a potentially large demand or gold materials on the market.

3. Other purposes

In addition to the above usage, gold is also used in dentistry, arts and crafts as well as for some special purposes, such as gold medal manufacturing. In 2010 gold used for these purposes reached 8.52 tons, an increase of 14.98 percent over 2009.

4. Hoarding of gold bars

Gold bullion is a very popular investment product, primarily as a means of wealth reserve for the general public to preserve the value of assets. In the context of the global financial turmoil and the lingering currency credit crisis, the Chinese people are enthusiastic about hoarding of gold bars. The amount of gold used for this purpose is the fastest growing area in China's gold demand, up 93.58 percent in 2010 to 141.88 tons, which almost doubled the figure in 2009.

Current suppliers in the gold bullion market include financial institutions and common business organizations. The former provide the public with brand gold bars issued by commercial banks, traded through outlets of commercial banks; the latter provide the public with proprietary brand gold bars issued by companies, traded through agent commercial banks or subject to principal sales at franchise stores established by the companies themselves.

5. Gold coin production

Previously, gold coin was the prominent product the general public invested their money in, so hundreds of tons of gold had been used to make coins. After the 1970s, as the control over gold was gradually eased globally, gold investment products became increasingly diversified for more choices. As a result, over the past decade, only 126.90 tons of gold was consumed in global gold coin production on average every year. However, it remains the fourth largest gold consuming area, next to the jewelry fabrication, the electronics industry and hoarding of gold bars.

Dating back to 1979 when Panda gold coins were first made, gold coin production has a history of 30 years in China. Although originally coins were sold mainly in foreign countries, China's demand for gold coin production has gradually increased as the domestic gold market became liberalized with higher public participation. In addition to the investment-oriented Panda gold coins launched each year, a variety of commemorative gold coins have also been released. As investment in gold became increasingly popular in recent years, the amount of gold coins released has also been climbing year by year. In particular, in 2010, gold consumed in gold coin production reached 16.61 tons, up 55.23 percent.

6. Net investment

Apart from manufacturing and hoarding purposes, gold as a financial investment tool is also subject to the demand for asset preservation and investment return, which we call the net investment demand. In 2010, driven by rising gold prices, the market was generally filled with optimism, resulting in a sharp increase of net investment by 81.38 percent in China's gold market, an increase of over one hundred tons (119.2 tons), while the total demand was 265.7 tons.

Table 6-3 China's gold demand structure in 2010

Category	Amount (tons)	Proportion in the total demand (percent)	Gains/ losses over the previous year (tons)	Gains/ losses over the previous year (percent)
Gold jewelry manufacturing	357.12	42.66	17.52	5.11
Industrial raw materials	47.38	5.66	7.19	17.60
Other industrial purposes	8.52	1.02	1.11	14.98
Gold coin production	16.61	1.98	5.91	55.23
Hoarding of gold bars	141.88	16.95	68.59	93.95
Net investment	265.7	31.74	119.21	81.15
Total	837.21	100	237.72	39.65

III. Outlook of supply and demand

The opening of China's gold market coincided with the occasion when the international gold market turned from bearish to bullish. Over the 9-year bull market, the price of gold increased by 3 times, with real interests seen and gained by gold producers, operators, processors and investors, stirring unprecedented sensation for the gold market. In the first decade of the new century, the Chinese people started from scratch and drew a picture deserving world attention.

(I) Climbing the historical highs

The first decade of the new century marked the milestone of Chinese people in rewriting its national as well as the international gold history:

– In 2006, China's gold used in the jewelry fabrication surpassed Italy, a famous brand fabrication country of traditional gold jewelry, ranking second only after India in global gold jewelry fabrication. A year later, China overtook the US and became the second largest jewelry consumer next to India. So we can say that China has genuinely become a great power of gold jewelry, ranking among the top players in the world.

– In 2007, China's gold production outnumbered South Africa, the top producer over a century, and became the world's new champion of gold production. Setting up a milestone to turn from a follower to a leader, it took a further step to leap forward, leaving a 100-ton gap with the closest follower. Over the past 4 years, China has maintained its leading edge, truly growing into a major gold producer, and its gold industry ushers in a historical period of fastest development.

– China had not lifted its gold control until the new century. So the history of the China's gold market is less than a decade, but a market system has been basically completed. We already have the world's largest floor trading market of physical gold, and the gold futures trading volume ranks seventh in the world.

It can be said that we not only have reached a peak in the gold history of China but also open up a new chapter of the gold market history in the world. It is just in the process of development that changes occur to the supply and demand in China's gold market.

Since the market economy is a consumption-oriented economic growth model and the progress in China's gold industry and gold market is made on the basis of the growing gold demand, gold supply and demand is the pivotal ssue concerning the development of the gold market.

(II) Analysis of Demand Factors

In 1979, the state issued panda gold coins to earn foreign exchanges, the first step in China's social demand for gold. The initial demand mainly came from overseas markets, while the expansion of the domestic gold market began in the 1990s, with a national gold coin marketing system gradually built. The first decade of the new century saw the country's gold coin production growing by 2.53 times to 16.61 tons in 2010 from 4.7 tons in 2001.

In 1982, China resumed market supply of gold jewelry with an annual fabrication volume of merely 2 tons of gold. In early 1990s, the demand fell for 5 years after reaching a peak, and then entered a rapid growth period since 2003. In 2010, the country's gold demand hit 315.12 tons, an increase of 55.08 percent over ten years ago in 2001. The development of the gold jewelry market provided more space for the social demand of gold.

Gold investment market was open to the general public in 2004, offering a new field for the social demand of gold. In 2010, the public demand for gold investment reached 407.58 tons, running over the combined gold consumption in both the jewelry industry and gold coin production, as the largest gold consuming area of the year, accounting for 48.68 percent of the total gold consumption across the country.

In the constant search of gold demand in line with people' s social needs, China has got closer to the world's largest gold consumer India, even with a potential to replace it; this trend will remain in the few years to come. According to the requirement of market supply–demand balance, an extremely important issue concerning the future development of China's gold market is how to strike a balance between gold supply and demand given the existing huge scale of gold consumption.

(III) Analysis of Supply Factors

1. Mineral gold

Mineral gold is a major part in China's gold supply system. As China's gold production continues to grow, it has already become the world's largest gold producer. However, the growth of gold production is lower than the growth of gold demand, and therefore the proportion of mineral gold in the total demand is falling instead of rising. In 2007, mineral gold contributed to 74.59 percent of the demand for gold, which fell to 51.42 percent in 2008, rebounded slightly to 52.37 percent in 2009, and declined to merely 40.72 percent in 2010. Although the yield potential of mineral gold can still remain about 8 percent for years, yet if compared with the growth in demand, we believe that mineral gold cannot meet the market demand, so relying solely on the growth of mineral gold to balance supply and demand will be a difficult task.

2. Scrap gold

Scrap gold in 2010 accounted for 30.62 percent of the total gold supply, indicating that it has become the second largest source of gold supply only after mineral gold. Scrap gold supply in 2010 saw a considerable increase of 22.43 percent over 2009, though still far below the total supply growth of the year at 41.79 percent. Judging from the future development trend, the short-term possibility of gold selling of the central bank to balance the inadequate supply is zero, and people hoard gold mainly to store wealth as a long-term investment. The general public is not sensitive to price fluctuations, and they buy rather than sell out gold against the thriving demand. Therefore, gold selling of the general public is not necessarily consistent with the market needs, leaving an uncertainty to balance the inadequate supply in this way. Another increase point lies in scrap gold, the growth of which may be expected in the future but with various restrictions, so the annual increment will also be limited.

Through the above analysis we conclude that scrap gold is an important component of China's gold supply but is very unstable, and its changes in quantity might leave a large gap with market demand, therefore, it constitutes uncertain factor in gapping the undersupply of China's gold market.

3. Imported gold

Gold imported from abroad is a timely and efficient approach to fill gaps in China's gold demand. Given the growth of China's gold market demand, the amount of imported gold is also on the rise. The figure was 28.77 tons in 2007, surging to 81.44 tons in 2008 and fell to 34.7 tons in 2009, respectively accounting for 7.92, 14.99 and 5.79 percent of the total demand,.

For a long time, China's gold production was used as a means of earning foreign exchanges, acting as a gold seller in the international market. Today its position has been reversed into a gold importer, with its imports increasing year by year. In the current circumstances, such a role-changing has positive implications:

– China's extraordinary foreign exchange reserves incurred increasing risks, and the increase in its gold imports serves to slow the growth of foreign exchanges to some extent. Besides, imported gold does not mean consumption of foreign exchanges, but an exchange of dollar reserves currently facing the devaluation risk into gold, which is a positive way to reduce the risk of extraordinary foreign exchange reserves.

– Increasing gold imports to meet the needs of the people is an effective means to reserve gold in the civil society, which is of significance in increasing the economic security of a country as well as its people. The current international climate dominated by peace sees free flows of gold around the globe, but at critical moments each state normally tends to implement controls on gold; therefore, it can be said that now is the best time to promote gold reserves in the civil society.

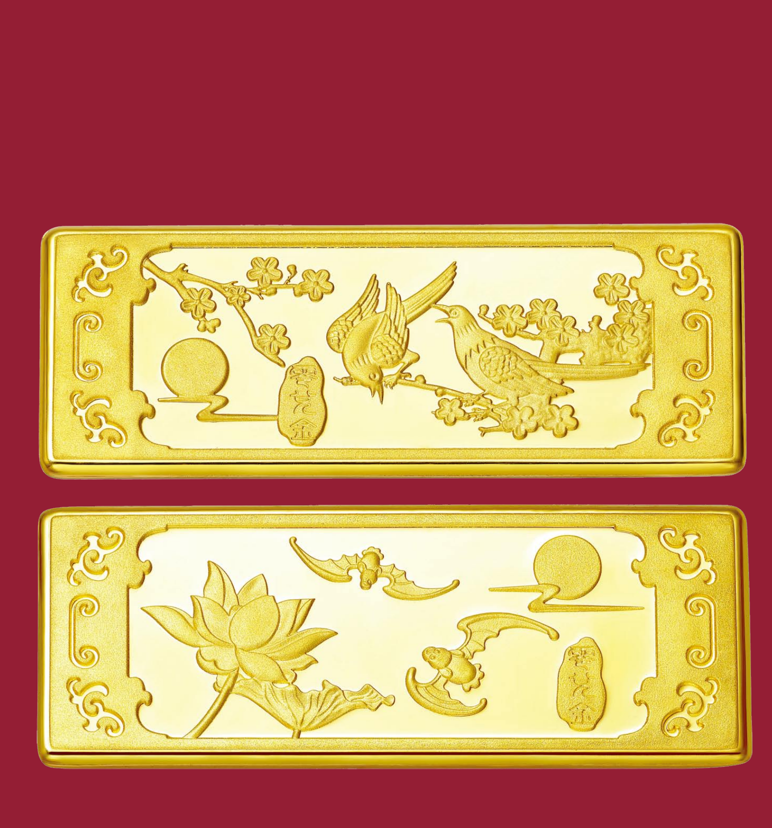
Supply and demand in China's gold market is also full of challenges. First, there is a need for further integration of the domestic market with the international market, because the increased dependence on the international gold market requires improved synchronization between the two, and it will inevitably cause a practical need to follow the international standards. However, as a part of China's financial markets, the gold market in its integration with the international gold market must coincide with the country's opening up of financial markets, which will involve many aspects.

Secondly, in advancing specific management, the reform of gold import and export management has been put on the agenda, the implementation of which should be accelerated. Given China's increasing dependence on the international gold market, the import channels should be further liberalized in order to ensure smooth movements. China's gold producers are going overseas and making use of global resources. The introduction of foreign gold suppliers should be further advanced, and the tax reform and improvement of scrap gold should be accelerated.

China has been, and is undergoing, profound changes in its gold demand-supply on the market, so there are plenty of new situations and topics occurred in balancing gold supply-demand which needs to be studied and solved.

Timeline

January 11, 2010	The General Assembly of National Science and Technology Progress Award Conference was held at the Great People' s Hall in Beijing, where China Gold Group Corporation got the second prize by its *Research and Application of the Bacterial Oxidation Process for Refractory Gold Ores.*
February 4, 2010	PBC organized the Forum on the Development of the Gold Market in Kunshan, to have a clear idea of the future development of China's gold market.
February 2010	Shanghai Branch of Credit Suisse obtained the membership of SGE and became its fifth foreign financial institution member.
March 1, 2010	Department VI under the Geology and Mineral Bureau of Shandong Province made a national record of small–diameter core drilling, using drilling rig ZK605 to score a depth of 2401.12 meters at the Laizhou Cangshang gold mine. Shandong Gold Group had started its 4,000–meter deep exploration project.
March 29, 2010	The Global Forum for Gold Entrepreneurs was jointly held in Beijing by the China Gold Association (CGA) and the World Gold Council (WGC), which was an event for domestic and foreign gold entrepreneurs at the highest level, as leaders of the five major gold groups in China and nine world–renowned entrepreneurs, attended the forum.
June 29, 2010	Zhenfeng County in Guizhou Province was awarded by China Gold Association (CGA) as the Gold County of China, where the top–level Forum on the Reform, Innovation and Development of the Gold Industry was held at the same time. Being a gathering area of ethnic minorities, Zhenfeng is rich in resources and the gold industry has already become a local pillar industry.
July 7, 2010	Press conference on the Chinese version of *Gold Survey 2010* was held in Beijing. The book was first released 14 years ago, and it has become an event for the release of annual information on the gold industry and the discussion on the market trend. Both the Chinese and English versions of *China Gold Market Report 2009* were also released on the same occasion.
July 2010	Four commercial banks (Industrial Bank, Minsheng Bank, Shenzhen Development Bank and Shanghai Bank) were approved of gold import licenses, doubling the number of Chinese commercial banks qualified for gold import business.
July 22, 2010	PBC in conjunction with NDRC, MIIT, MOF, SAT and the CSRC jointly issued *Guiding Opinions on the Promotion of the Gold Market*.
July 30, 2010	SGE transferred 99.5 percent of its individual clients from its general members to commercial bank members.
August 19, 2010	The first deal of forward gold trading in RMB was done between BOCOM and the Shanghai Branch of ANZ Bank on SGE.
August 19, 2010	Shanghai Head Office of PBC held the Working Seminar on the Gold Market 2010 for exchanges concerning innovation and development of the gold market.
August 24, 2010	SHFE approved the membership of Agricultural Bank of China and Shanghai Pudong Development Bank as its non–FCM members qualified for gold futures trading..
September 28, 2010	Bank of China Precious Metals business Center was set up in Shanghai.
December 1, 2010	China Gold International Resources Corp. Ltd., a holding company of China Gold Group, got listed on SEHK' s main board. Its IPO included 53.66 million ordinary shares at HKD 44.68 per share, approximating the price limit of HKD 44.96 per share, with its fund–raising totaling nearly HKD 2.4 billion.
December 13-14, 2010	The annual meeting of the National Technical Committee on Gold Standardization was held in Nanjing. At the meeting, five standards for gold were accredited while eight pre–accredited, and arrangements regarding the Twelfth Five–year construction plan for building a gold standard system were made.
December 23, 2010	State General Administration for Quality Supervision and Inspection and Quarantine and the Standardization Administration of the People's Republic of China jointly approved and released the *High–purity Gold* and the *Chemical Analysis of High–purity Gold*. The promulgation and application of the standards made China' s gold purity standards higher than the general international standards, filling the blank in international standards for high–purity gold.
2010	China' s gold industry saw continued growth to score a new record high in its output, actual profit and industrial output value. Gold production ranked first in the world for 4 consecutive years, marking another fruitful year of its gold industry.

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