
China the most important source of future demand for gold-Peter Koven-Financial Post

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Peter Koven, Financial Post Published: Thursday, February 04, 2010

There are certain drivers to the gold price that everyone talks about: U.S. dollar weakness, rising investment demand, producer de-hedging, and reduced central bank selling. Citigroup Global Markets analyst Alan Heap focuses on a different one: China.

In a note to clients, he called China the "most important source" of future demand growth in gold. And it is not just from the central bank--he noted that in 2009, retail investment demand in China was "particularly" strong as overall Chinese demand rose 10%.

The focus on Chinese gold demand comes amid renewed concerns about asset price inflation in the country. Recently, the Chinese government has taken steps to curb bank lending after letting it run completely out of control in 2009. That stoked inflation fears and strengthened the case for citizens to own gold.

Of course, Asian central banks are not expected to ignore gold, either. Mr. Heap noted that Chinese and Indian central banks remain extremely underweight gold, with only 1.5% and 4.1% of their total reserves in the precious metal. That compares to the European average of 54%.

Source: <http://www.financialpost.com/todays-paper/story.html?id=2519663>