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China Increases Gold Reserves 76% to Fifth-Largest (Update4)

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By Eugene Tang and Bob Chen



April 24 (Bloomberg) -- **China** boosted its gold reserves by 76 percent since 2003 and has the world's fifth-biggest holding by country, said **Hu Xiaolian**, head of **the State Administration of Foreign Exchange**.

The nation increased its reserves by 454 tons to 1,054 tons through domestic purchases and refining scrap metal, **Hu** said in an interview with the Xinhua News Agency today. The amount is more than Switzerland's 1,040 tons, World Gold Council data show, and is worth \$31 billion at current prices.

China has the world's largest foreign exchange reserves at \$1.95 trillion as of March 31, according to state administration data. The holdings have climbed about sixfold in the past six years as the country had record trade surpluses and inflows of foreign investment. Gold prices have almost tripled to more than \$900 an ounce from \$337.

"Chinese foreign-exchange reserves have absolutely exploded in the past few years," said **Jan Lambregts**, head of Asia research at Rabobank International in Hong Kong. "We shouldn't be surprised that they're adding a lot of all asset classes. I don't think they're shifting away from U.S. dollars into gold."

Gold climbed to a record \$1,032.70 an ounce on March 17 last year and traded 0.9 percent higher today at \$912.08 an ounce at 3:18 p.m. local time in Singapore.

Debt Holdings

Chinese Premier Wen Jiabao has expressed concern the dollar will weaken, eroding the value of China's holdings of Treasuries, as the U.S. borrows unprecedented amounts to spend its way out of recession. China is the biggest overseas owner of U.S. government debt, **holding** notes totaling \$744 billion at the end of February, according to U.S. data.

Jesse Wang, executive vice president of China Investment Corp., has said the nation's \$200 billion sovereign wealth fund may invest in "undervalued" commodities. **Zhang Guobao**, head of the National Energy Administration, said China should invest more in commodities instead of hoarding the dollar, Xinhua reported on March 7.

China, the world's biggest gold producer, has increased its holdings before, Hu said in the interview carried on the administration Web Site. They rose from 394 tons to 500 tons in 2001 and to 600 tons in 2003, it said. China has told the International Monetary Fund of the recent changes and the new amount will be reflected in the central bank's **balance** sheet and statistical reports, it said.

'Support Prices'

"This shows a change in attitude in Asian central banks," said **Si Kannan**, associate vice president at Mumbai-based Kotak Commodity Services Ltd. "While the IMF is selling gold, Asian central banks are diversifying into gold. That's a good thing, in times of dollar uncertainty and the global volatility in the forex market," he said by phone from Mumbai today.

China's gradual increase in gold reserves and increasing jewelry demand from China and India "will

support gold prices," Kannan said.

The IMF said April 3 there had been no talks about selling more gold than the 403.3 tons proposed a year ago. Leaders from the Group of 20 said the day before that revenue from previously proposed gold sales would be used to help the world's poorest countries. The IMF board approved a proposal in April 2008 to sell 403.3 tons of bullion as part of a plan to close the Washington-based lender's annual deficit.

"My opinion has always been that China should increase its gold holdings," **Hou Huimin**, vice chairman of the China Gold Association, said by phone from Beijing today. "China should strive to play a more proactive role in the global financial market by adding more gold."

The U.S. has the world's biggest gold holdings at 8,134 tons, followed by Germany with 3,413 tons, World Gold Council data show. France has 2,487 tons and Italy 2,452 tons, while the IMF has 3,217 tons, according to the council.

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