

CHINESE GOLD STANDARD v1

Chinese Gold Standard Would Need a Rate 50 Times Bullion's Price

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From [Bloomberg](#)

A move to a gold standard in China would require an exchange rate of as much as \$64,000 an ounce, 50 times bullion's price now, according to Bloomberg Intelligence.

A traditional gold standard, in which the precious metal backs the currency, is basically impossible at current prices due to the amount of metal needed and there's no evidence the sixth-biggest bullion holder will adopt one, Bloomberg Intelligence said in reports published Wednesday. Any attempt probably would involve new technologies and depend on the ratio of what is backed, it said.

Chinese policy makers are trying to establish the yuan as a reserve currency, and backing it with gold would help attract foreign capital inflows, the Bloomberg research unit wrote. Theoretically, to create an exchange rate of one ounce of gold for every \$64,000, the country would need about 10,000 metric tons of the metal, they estimated. That's nine times the nation's official holdings and about 6 percent of all the bullion ever mined globally.

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“It would probably have to be very different than an old gold standard,” Kenneth Hoffman, the Princeton-based head of global metals and mining research at Bloomberg Intelligence, said in an interview in London on Tuesday. “They have all this currency out there, they want it all soaked up by central banks.”

Gold for immediate delivery traded at \$1,207.89 an ounce in London on Wednesday.

In another scenario assuming an exchange rate at today’s price, China would need about 525,000 tons, Bloomberg Intelligence estimates. Only about 175,000 tons have ever been mined, according to the London-based World Gold Council.

“It wouldn’t be a traditional system where you walk into a bank and you walk out with an ounce of gold,” Hoffman said. “It would have to be something new and different.”

Gold’s Role

Bullion played a central role in the international monetary system until the collapse of the Bretton Woods framework of fixed exchange rates in 1973. While gold’s role has diminished since then, most central banks have some on their balance sheets.

China last updated its gold reserves in 2009, when it owned 1,054.1 tons. Bloomberg Intelligence says the central bank may have tripled the holdings since then. China and India are the largest consumers of the metal.

Yi Gang, the central bank’s deputy governor, said in March 2013 that the country could only invest as much as 2 percent of its foreign-exchange holdings in gold because the market was too small.

Chinese policy makers are pressing to add the yuan to the IMF’s currency basket, known as the Special Drawing Right, which includes the dollar, euro, yen and British pound. The Bundesbank said in April that the yuan needs to be seen as freely convertible before it can be considered as part of the SDR basket.

“What else can they do to create a reserve currency that other central banks around the world would want to hold?” Hoffman said. “The Chinese have proved over and over that they are willing to think outside the box.”