

THE MYSTERY OF CHINA'S GOLD STASH v1

China's push to challenge U.S. dominance in global trade and finance may involve gold -- a lot of gold.

While the metal is no longer used to back paper money, it remains a big chunk of central bank reserves in the U.S. and Europe. China became the world's second-largest economy in 2010 and has stepped up efforts to make the yuan a viable competitor to the dollar. That's led to speculation the government has stockpiled gold as part of a plan to diversify \$3.7 trillion in foreign-exchange reserves.

The People's Bank of China may have tripled holdings of bullion since it last updated them in April 2009, to 3,510 metric tons, says Bloomberg Intelligence, based on trade data, domestic output and China Gold Association figures. A stockpile that big would be second only to the 8,133.5 tons in the U.S.

"If you want to set yourself up as a reserve currency, you may want to have assets on your balance sheet other than other fiat currencies," Bart Melek, head of commodity strategy at TD Securities, said by phone from Toronto. Gold is "certainly viewed as a viable store of value for an up-and-coming global power," he said.

China may be preparing to update its disclosed holdings because policy makers are pressing to add the yuan to the International Monetary Fund's currency basket, known as the Special Drawing Right, which includes the dollar, euro, yen and British pound. The tally may come before the IMF's meetings on the SDR next month or in October, Nomura Holdings Inc. said in an April 8 report.

Monetary Role

Gold played a central role in the international monetary system until the collapse of the Bretton Woods framework of fixed exchange rates in 1973, according to the IMF. While the role of bullion has diminished since then, the fund still holds 2,814 tons and most central banks have some on their balance sheets. Russia more than tripled its holdings since 2005.

China is the world's largest gold producer and ranked behind only India among top consumers last year, but the amount of metal its central bank last reported holding in 2009 accounts for just 1 percent of foreign-exchange reserves, which have surged more than fivefold in a decade and are the biggest in the world. Most of that is in dollars.

The IMF estimates the dollar makes up 63 percent of world central bank holdings, while the No. 2 currency, the euro, accounts for 22 percent. Data from the Society for Worldwide Interbank Financial Telecommunication show the U.S. currency was used for 43 percent of global payments in February.

THE MYSTERY OF CHINA'S GOLD STASH v1

Approved Programs

While China is promoting the yuan internationally, Swift data show the currency was used for only 1.8 percent of international payments in February. Private investors -- both Chinese and non-Chinese -- can move their money in and out of the country only through approved programs and in limited amounts, and changes in the currency's value are only permitted in limited ranges.

Adding gold and other assets would ease China's reliance on the dollar, said Nathan Chow, a Hong Kong-based economist at DBS Group Holdings Ltd.

It may bolster the view China has "a currency that's well backed by a range of different assets," said Steven Dooley, a Melbourne-based currency strategist at Western Union Business Solutions for Asia-Pacific. "The most-liquid currencies tend to have a wide range of foreign-exchange reserves."

Market Mystery

With China disclosing so little about its hoard, finding out how much the central bank has in its vaults is of increasing interest to traders. Confirmation of bigger holdings would signal the importance of the metal as a reserve asset and boost market sentiment, TD Securities' Melek said. At a time when prices are languishing, the buying could give support, said Suki Cooper, director of commodities at Barclays Plc in New York.

Bullion climbed from \$882.05 an ounce at the end of 2008 to a record \$1,921.17 in 2011 as investors sought safety from currency depreciation and the threat of inflation. Prices plunged 28 percent in 2013 as rallying stocks and a rebounding economy eroded the appeal of the metal, which traded at \$1,198.82 on Tuesday.

China may not have expanded holdings by much. The dollar has strengthened since the middle of last year on expectations the Federal Reserve will boost interest rates, making the U.S. currency more attractive than bullion, which generally offers returns only through price gains.

In a rare comment on gold, 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. The press office of the People's Bank of China in Beijing didn't respond to a fax seeking comment sent on April 14.

THE MYSTERY OF CHINA'S GOLD STASH v1

More Scope

"I wouldn't expect a huge jump in gold holdings," said Andy Ji, a currency strategist and China economist at Commonwealth Bank of Australia in Singapore.

Ashish Bhatia, the World Gold Council's director, central banks and public policy, in New York, said there's a lot of room for China to expand. It's ideal for central banks to have 4 percent to 10 percent of assets in gold, he said. The PBOC may already hold at least 3,000 tons, said Warren Hogan, chief economist at Australia & New Zealand Banking Group Ltd. in Sydney.

"Gold has always been, through the history of China, a way to project power," Kenneth Hoffman, a metals and mining analyst at Bloomberg Intelligence, said in an interview on April 9. "They are thinking about how to make the yuan more international, and so this is a possible reason why they are buying so much gold."