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Chinese gold market outlook 2025
Stabilising demand

China's gold market review: a divided 2024

The local gold price in China has experienced a record-smashing year so far in 2024. The RMB gold price – represented by the Shanghai Gold Exchange (SGE) Au9999 – had surged by 28% as of November end, making it the best performing asset in China so far this year – and its international peer in USD also saw a similar rise. In addition to gold's global drivers, domestic factors such as a depreciating RMB, strong investment momentum – including sizable gold ETF inflows and active futures trading – as well as economic uncertainties all contributed positively to the stunning performance of the Chinese gold price (Chart 1). And the local gold market supply and demand imbalance – which is difficult to determine with a high level of accuracy at a monthly frequency due to data availability – is also a key driver. However, we believe its effect is captured by the "residual" in our model.

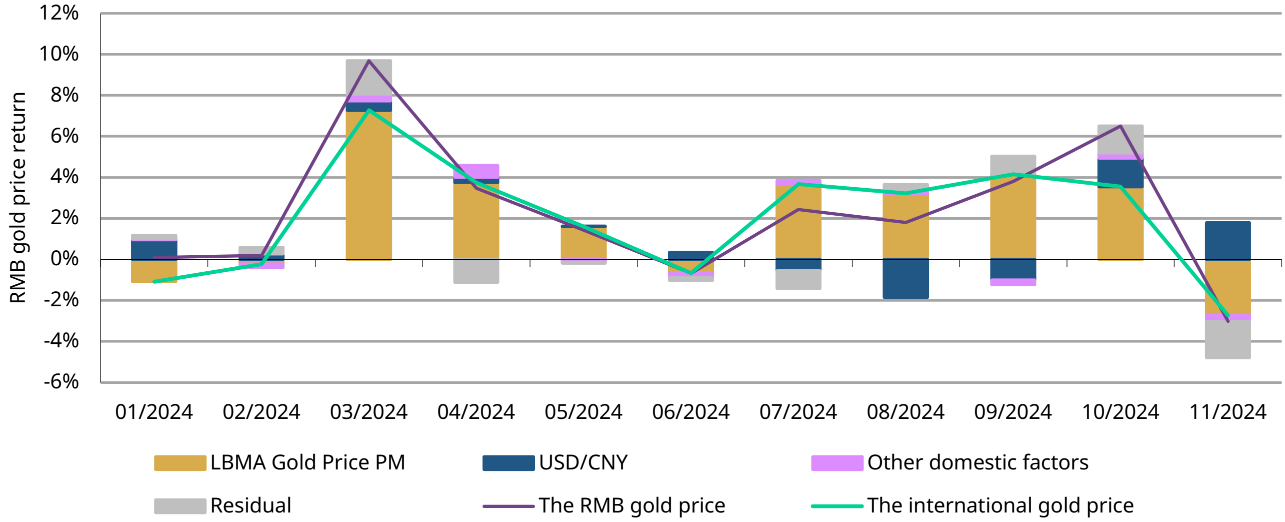
Highlights

In 2024, China's gold jewellery demand weakened notably while investment remained robust.

Looking ahead, we see stabilising in both demand sectors: while the gold jewellery demand weakness may narrow, investment growth could slow in 2025.

Chart 1: The RMB gold price is driven by both the international price and domestic factors

Multifactor model detailing attribution of the RMB gold price drivers on its monthly returns*



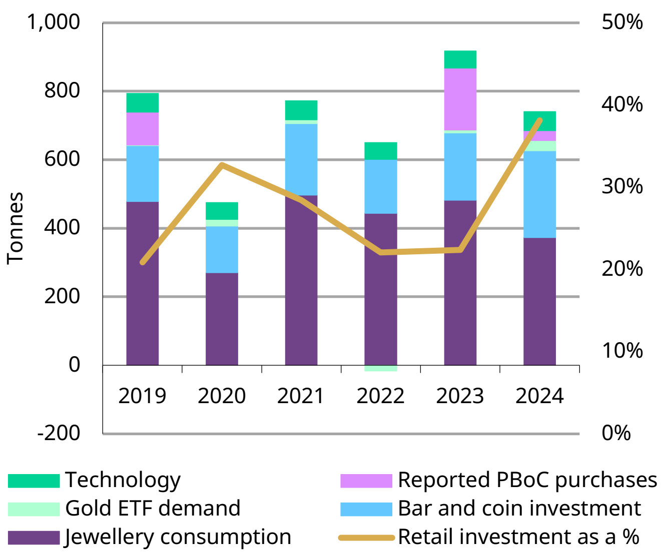
*All data based on m/m changes between January 2019 and November 2024. Domestic factors include m/m changes in Shanghai Futures Exchange's gold futures trading volume, Chinese Manufacturing PMI, and Offshore RMB 12-month Forward Points. The RMB gold price is based on Shanghai Gold Exchange's Au9999 while the international gold price is based on the LBMA Gold Price PM in USD.

Source: Bloomberg, Shanghai Gold Exchange, Shanghai Futures Exchange, World Gold Council

The rallying local gold price has been a double-edged sword to China's gold consumption this year (Chart 2). While the strong gold price performance, alongside slowing economic growth, has dented affordability for gold jewellery consumers; when combined with declining yields, a volatile equity market and a weaker local currency, it has attracted gold investors. Our data shows that China's gold jewellery demand totalled 373t during the first three quarters of 2024, the weakest since 2010. Conversely bar and coin investment over the same period (253t) reached its highest level in 11 years. Consumer demand above has remained relatively stable between Q1 and Q3, amounting to 626t, an 8% y/y fall.

Chart 2: China's gold demand has been driven by investors so far in 2024

Q1~Q3 gold demand in China*



* Based on total gold jewellery consumption, bar and coin investment, reported PBoC purchases, net gold ETF demand and technology demand
Source: Metals Focus, State Administration of Foreign Exchange, World Gold Council

And the 30t jump in Chinese gold ETF collective holdings through Q3 has eclipsed any previous record – all of this before an unprecedented 21t demand surge in a single month recorded in October; despite a 5t estimated decline in November, the y-t-d gold ETF demand total is more than 45t.

Technology demand remained stable near its long-term Q1~Q3 average of 53t, characteristic of a sector with low demand volatility, which was likely supported by the AI boom.

Meanwhile, reported purchases from the People's Bank of China (PBoC) have slowed notably in 2024; the 18-month gold purchasing streak came to an end in May 2024, accumulating 29t during the period.

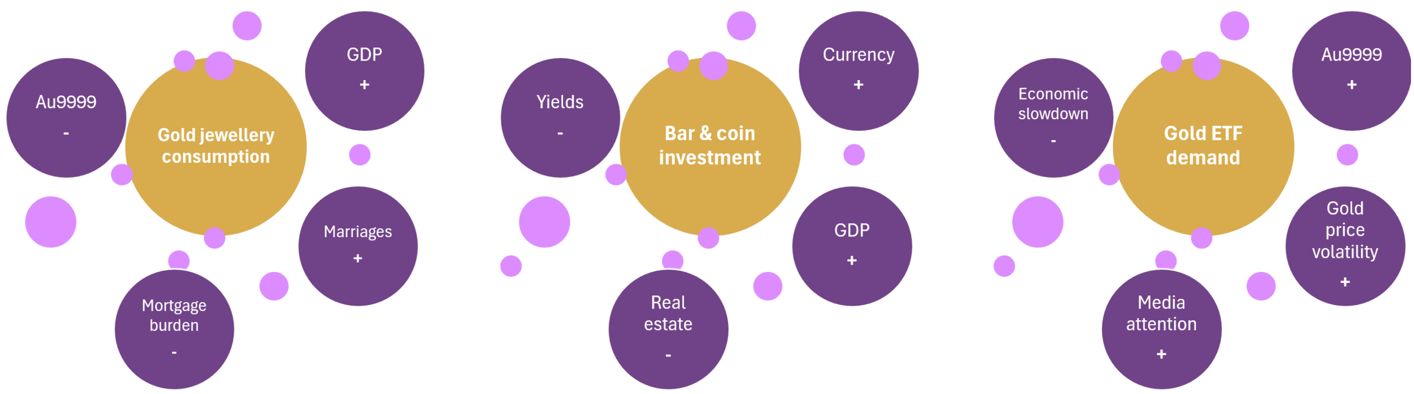
China's total gold demand – which includes gold jewellery consumption, bar and coin investment, gold ETF net demand, technology use and reported central bank purchases – reached 741t during the first three quarters, a 19% y/y decline. But thanks to strong investment flows, total demand remained above its five-year average of 718t.

China's gold market outlook 2025

A simple guide to Chinese gold demand's macro drivers

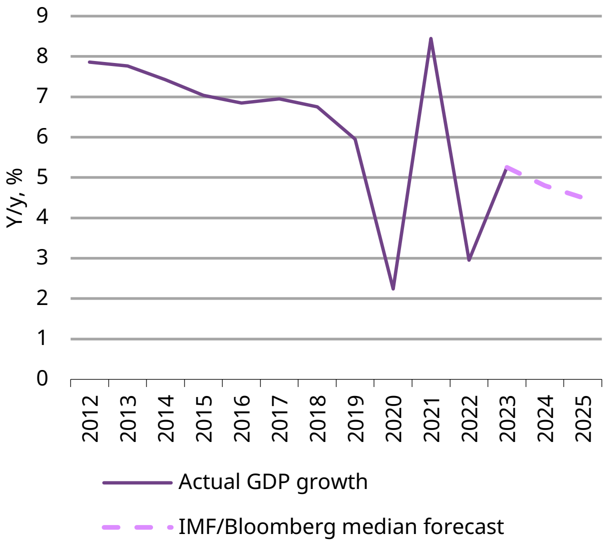
As we mentioned in previous reports, gold demand in China is not solely driven by changes in the gold price (Chart 3). For instance, economic growth forms the fundamental driver for both gold jewellery consumption and bar and coin investment. And the number of weddings, which impacts gold jewellery buying, is also vital factor to follow. Meanwhile, changes in yields and the local currency are closely tied to retail investment growth. And relatively shorter-term gold ETF investors are mainly driven by the gold price, hedging demand and media attention.

Chart 3: Drivers of Chinese gold demand*



* All drivers are from our Chinese gold demand multi-regression models based on historical data.
Source: World Gold Council

Chart 4: Institutions are projecting 4.5% growth in GDP



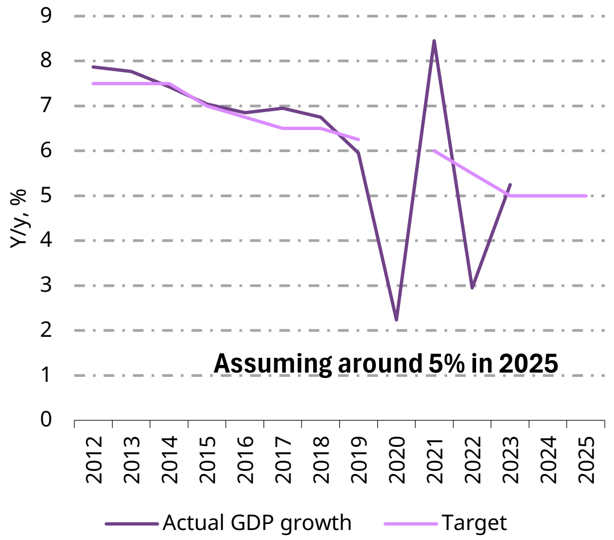
Source: IMF, Bloomberg, World Gold Council

Various institutions have produced projections for China's GDP growth in 2025 (**Chart 4**): the International Monetary Fund (IMF) sees a 4.5% y/y increase and Bloomberg's median forecast agrees.[1]

We believe there might be some upside potential compared to these forecasts. China's 14th five-year plan (FYP), announced in 2021, aims to meet the standards of high-income countries by 2025. Its vision is to double the total economic size of the country by 2035, which implies **an annual average growth rate of just below 5%**.[2] The plan is a key factor behind the decision of policy makers to set the 2024 growth target at "around 5%"[3] – and economists expect a similar target to be set for 2025 (**Chart 5**).[4]

To achieve such an ambitious target China is likely to keep ramping up both monetary and fiscal supports such as further rate cuts, higher deficit ratio and more special bond issuance. There is also a possibility that China will roll out more-aggressive-than-expected stimulus surprises in the event that the Trump administration imposes tariff hikes – exports have made up 24% of China's GDP growth during the first three quarters this year.[5]

Chart 5: China's 2025 growth target may lie around 5%*



* During years when targets are set as a range, we use the average number of that range. And "around 5%" is shown in the chart as 5%.
Source: Bloomberg, Public News, World Gold Council

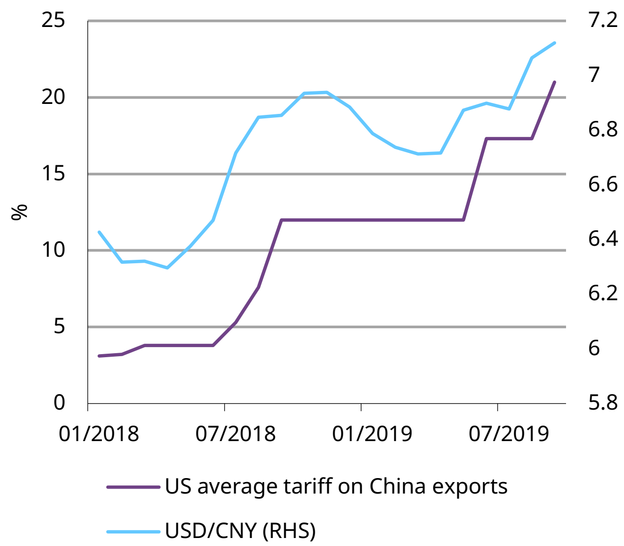
The current revival in domestic consumption could continue if accommodative polices remain in place. Supported by special trade-in subsidies, retail sales of home appliances and cars have seen a notable recovery.[6] The housing market, which has seen rebounds in home sales and prices thanks to various stimuli, may also improve amid further stimuli to lower trading costs and lending rates.[7]

Under the scenario where China steps on the gas to achieve growth targets, **further interest rate cuts are likely**. Meanwhile, a second Trump term, including renewed trade tariffs may bring shocks to the RMB similar to those seen in 2018 when Trump first initiated a trade war with China, leading to **depreciating pressure on the Chinese currency** (**Chart 6**).

1. For more see: World Economic Outlook, October 2024: Policy Pivot, Rising Threats
2. For more, see: Issue Brief - China's 14th Five-Year Plan | United Nations Development Programme and Xi Focus: Xi says China's economy has hope, potential to maintain long-term stable development - Xinhua | English.news.cn
3. For more, see: China unveils 2024 growth targets with focus on high-quality development
4. For more, see: China reaffirms commitment to achieving 2024 goals - Global Times and China to stick with 'around 5%' GDP target in 2025 despite Trump tariff threat: economist | South China Morning Post
5. For more, see: Trump win and threat of more tariffs raises expectations for more China stimulus
6. For more, see: China provides subsidies to boost home appliance trade-ins and China doubles subsidies to boost auto trade-ins | govt.chinadaily.com.cn
7. For more, see: Stimulus measures to be enhanced - Chinadaily.com.cn

Chart 6: Trump tariff 2.0 may bring pressure to the RMB…

The average US tariff on China exports and the RMB during Trump tariff 1.0*

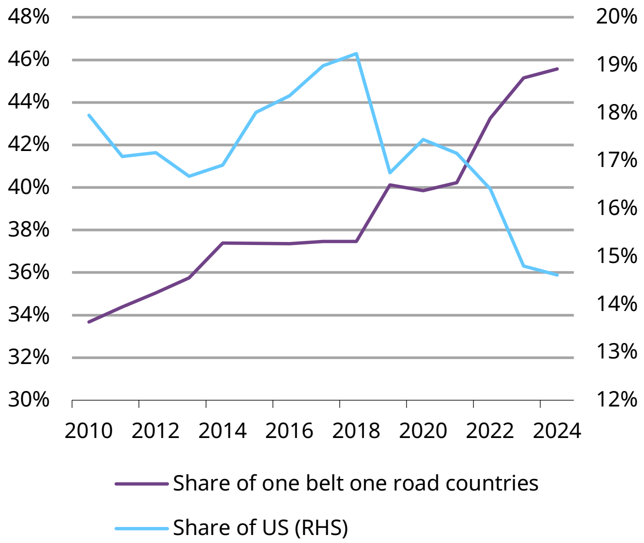


*Data between January 2018 and September 2019.
Source: Bloomberg, World Gold Council

But it is also important to note that while challenging, the new tariff shock may not be as destructive, as China is less dependent on exports to the US now than it was in 2018 (Chart 7).

Chart 7: …but China's exports have grown less dependent on US

Shares of China's exports by destination*



* Note that exports in 2024 include data up to October. For the definition of Belt and Road Initiative, please see: Belt and Road Portal - BRI Official Website
Source: Wind, World Gold Council

2025 may see a narrower decline in gold jewellery consumption

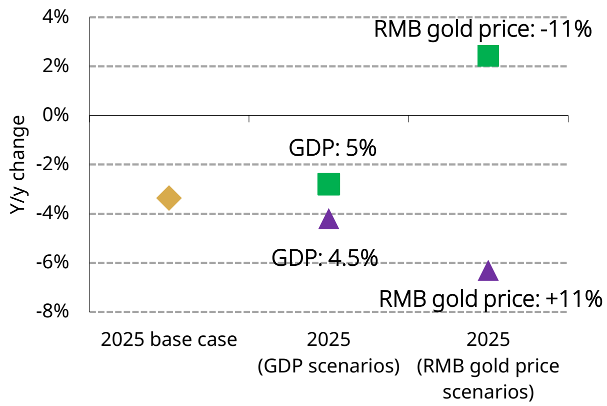
We expect to see continued divergence in gold jewellery consumption and investment demand in 2025. We have laid out a base case scenario on the consensus expectations of key macro variables – some of which now include further slight tweaks. We assume, in the base case scenario of 2025 gold jewellery demand:

- a 4.8% y/y increase in the 2025 GDP
- a 3.6% increase in the RMB gold price – based on Oxford Economics expectations as included in Qaurum^{SM}
- ~25bps down in 10-year government bond yield[8]
- a long-term (10 year) declining rate in marriages, affecting gold jewellery consumption.

We have created other scenarios by adjusting GDP growth and the gold price change, the two most important factors that impact gold jewellery demand in China (Chart 8).

Chart 8: We expect the y/y decline in China's gold jewellery demand to narrow in 2025

2025 jewellery demand scenarios from our annual model*



*2025 jewellery demand change is based on our annual Chinese gold jewellery model, which includes changes in annual GDP, marriages, Au9999 and average mortgage rates. In GDP/RMB gold price scenarios, we hold all else constant. The price scenario is based on +/- one annual standard deviation of the RMB gold price.
Source: Bloomberg, Wind, Metals Focus, World Gold Council

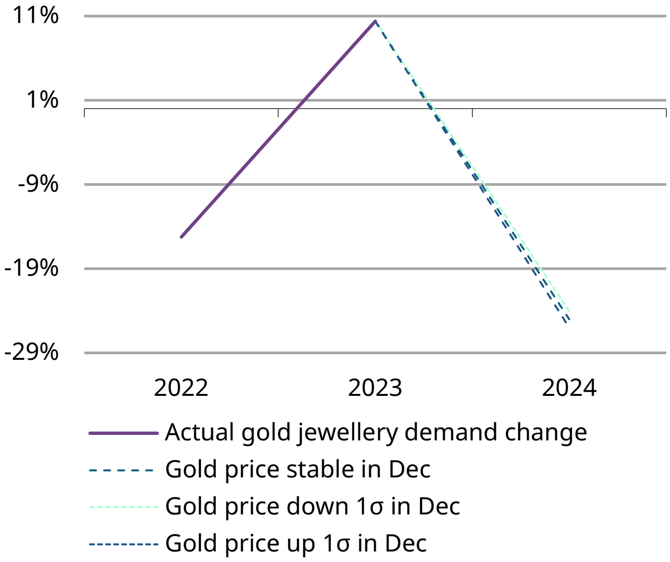
In summary, our model anticipates continued decline in 2025 gold jewellery demand, likely at around 3% - while most other scenarios also point to y/y falls, a sizable drop in the gold price – holding all else constant – may result in a minor rebound.

Although there could be continued weakness in 2025, the fall is likely to be much milder compared to 2024's potential more-than-20% drop – Q4 2024 data is based on our modelled results amid various scenarios of key variables (Chart 9).

8. Based on Bloomberg Economist Survey forecasts' (ECFC function) lower-end projection.

Chart 9: Our quarterly model produces a double-digit decline in 2024 Chinese gold jewellery demand

2024 full year jewellery demand from our quarterly model*



*Q4 jewellery demand is based on our quarterly Chinese gold jewellery model, which includes quarterly GDP and quarterly marriage changes from the previous quarter and Au9999 changes in the current quarter. Given that other variables (Q3 changes) have already been released, we assume three scenarios of the gold price in December: no change, up and down by one monthly standard deviation.
Source: Bloomberg, Wind, Metals Focus, World Gold Council

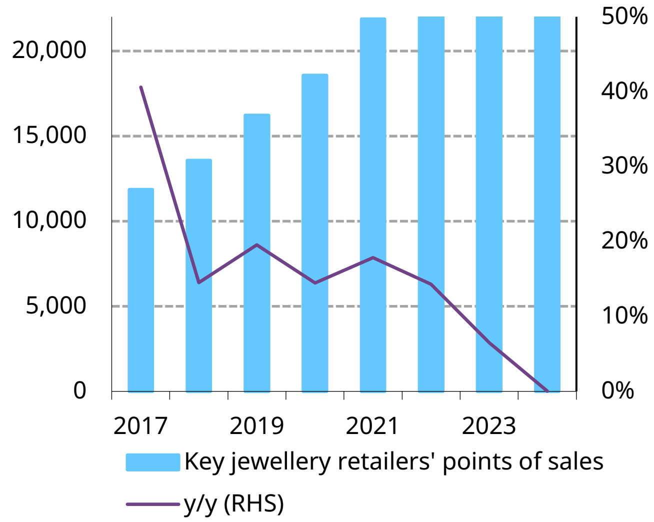
While our annual model explains a good portion of variations in Chinese gold jewellery demand – an R-square of 85% to be exact – structural changes, which are difficult to quantify, should also be closely watched. As noted in our most recent Gold Demand Trends, the oversupply issue in China's gold jewellery industry has led to consolidation of both retailers and manufacturers. This is reflected in a sharp slowdown in expansion among major gold jewellers (Chart 10). For some, points of sales have started shrinking in 2024 – a trend that is likely to continue according to our conversations with industry participants.

On the bright side, ongoing innovation in gold jewellery designs has been key in attracting young consumers, providing longer-term support for demand. And retailers are increasing their efforts in product premiumization, underpinning demand for high-end jewellery items which are usually heavier and more expensive than others. This is a trend we noted in our previous report: while lighter-weighted products with lower costs have increased in popularity, the market share of high-end products remained stable.

And while China's gold jewellery market may be near saturation, there has been increasing discussion among the industry around export opportunities, which could open a new growth window. In fact, our conversation with market participants indicate that not only major retailers are going abroad, gold jewellery manufacturers in Shenzhen are also experiencing increasing orders from overseas.

Chart 10: Major jewellery retailers are slowing their expansion pace

Key Chinese gold jewellery retailers' points of sales*



* Our sample includes Chow Taifook, Luk Fook, Yuyuan Group, Lao Fengxiang and Chow Taiseng. Note that 2024 data is up to September for Hong Kong listed jewellers and up to June for jewellers listed in Mainland China.
Source: Company reports, World Gold Council

2025 investment demand to stay steady

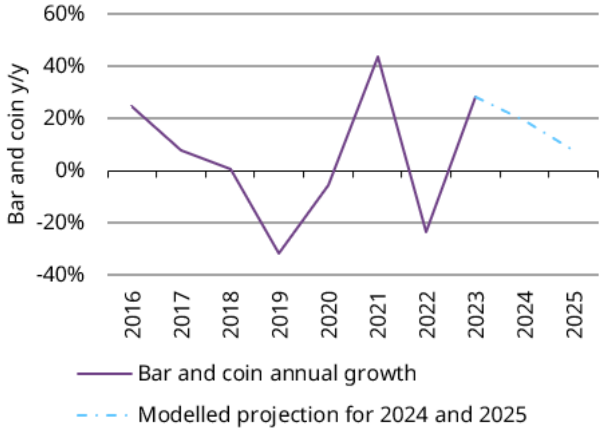
Bar and coin investment may remain healthy in 2025, although may not reach the rate of growth seen in 2024. We believe increasing currency depreciation pressure and a high likelihood of lower interest rates are likely to provide support. Our model, plugging in base case macro scenarios for Q4 2024 and 2025, produces a ~20% y/y rise in full year 2024 and 8% y/y increase in 2025 (Chart 11).

Similar to gold jewellery consumption, factors not included in our model – which are either difficult to forecast or statistically insignificant due to our sample limitation – may also move the needle for bar and coin investment. For instance, reviving signs of the housing market, evidenced by the recent uptick in home buying volumes and prices, could redirect investor attention as property is another popular value-preserving asset in China.[9] Further diversion could be forthcoming if equities show attractive gains. But if official gold purchase announcements resume, which have been a key driver of gold investment demand in past years, gold investor sentiment will receive an additional boost.

9. For more, see: China's property market shows positive changes as supportive policies take hold

Chart 11: We see steady bar and coin investment ahead

Our modelled results of 2024 and 2025 investment growth* in China as well as key assumptions**



Factors in our model		
	Base case	***Impact on gold investment***
GDP	4.80%	0
USD/CNY	2% depreciation	+
10-year bond yield	~25bps down	+

Factors not in model but still matter		
	Consensus	***Impact on gold investment***
Real estate	Reviving	-
Equities	Active trading	-
PBoC gold buying	?	?

*Our q/q change bar and coin model includes lagged GDP growth, changes of USD/CNY and Chinese 10-year government bond yield in the same quarter and seasonality for Q4. For Q4 2024 projection, we used the Bloomberg median forecast of USD/CNY and the 10-year bond yield in Q4, which are 7.2% and 2.13% respectively, producing a 28% q/q rebound in Q4 2024.
**For RMB exchange rate and the 10-year yield, we used the lower end of Bloomberg's Economist Survey forecasts.
Source: Bloomberg, Metals Focus, World Gold Council

China's gold ETF market has expanded rapidly in 2024, thanks to the strong gold price performance as well as investor and media attention. Going forward, we believe the gold price will remain a key factor driving ETF flows – a rising gold price usually attracts inflows and vice versa. Meanwhile, equity market volatility, together with China-related economic and geopolitical uncertainties will also be key gold ETF demand influencers. On the flip side, gold ETFs may lose its allure should continued Chinese economic revivals improve investor risk appetite. And profit-taking remains a potential outflow driver as the local gold price stays at record highs.

We have witnessed a notable rise in the number of multi-asset funds with physical gold inclusion – mainly through local gold ETFs. According to public reports, as of June 2024, 204 active listed public funds in mainland China hold gold ETFs, a sharp rise from end-2023's 112. We believe gold's strategic role as a hedge against local currency and equity volatilities should continue to attract intuitions' attention.

In summary

As 2024 comes to an end, we cast our eyes on the future. In 2025 we expect volatilities in key Chinese gold demand sectors to fall. Potential stability in economic development and possible further stimuli, such as interest rate cuts, should help trim gold jewellery demand weakness, although continued consolidation in the industry is likely to remain a key ongoing challenge.

However, with expected declines in yields and a likely weaker local currency, gold investment demand should be supported. But other factors such as investor sentiment towards assets like property and equities also matter. Lastly, gold purchasing announcements from the central bank, should they resume, will provide an additional tailwind to local investor appetite for gold. As such, we believe China's gold demand will stabilise in the coming year.

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