China moves to Stage 2 of its great gold grab

China has a two-stage gold domination plan. Stage 1 is well advanced with the domestic accumulation of gold rising rapidly, both through importing the metal and banning the export of gold mined within China. Stage 2 is to buy as many gold deposits abroad, and this week we saw another move in this direction.

First, where is Stage 1 up to? Does China's central bank really have gold reserves of between 25,000 and 30,000 tonnes of gold – which, even at the lower figure, would have given Beijing reserves greater than the other seventeen largest reserves holders put together, including the U.S., the IMF, the European Central Bank, France, Italy and Germany? That's the view of Alasdair Macleod, a member of the London Stock Exchange since 1974 and who is now a frequent writer on the subject of sound money.

Just last month the Russian newspaper *Pravda* quoted "unconfirmed reports" that China had 30,000 tonnes of gold and added: "If this is true, it means that China will be capable of bringing down the U.S. dollar in an instant", referring to the oft suggested idea that Beijing is aiming to have the yuan as the world's prime reserve currency.

That China is buying and hoarding gold seems beyond doubt. Even the Bloomberg news service recently assumed the Chinese central bank has 3,150 tonnes. That's roughly triple what Beijing admits to: it has never updated its 2009 announcement that it had 1,054 tonnes.

But there is another strand to this story: China not only wants to acquire the largest gold reserve in the world, it also seeks to control the mines that produce the metal, so ensuring future supply. Just as Beijing has maintained dominance in rare earths, antimony, tungsten, molybdenum and other key metals, so it wants to dominate gold. But there is a difference: with all those other metals, China has substantial resources within its borders, but that is not the case with gold. So it has to achieve dominance by acquiring mines overseas.

According to the U.S. Geological Survey, China mines 15% of annual gold output but has only 4% of the world's known gold still in the ground. Estimates vary as how long it will take, but within the next decade Chinese production is going to plummet.

This explains why Zijin Mining, China's largest gold producer, has been so acquisitive. The company this week unleashed a takeover bid for Australia's Phoenix Gold (ASX:PXG). This company has a reserve of about 1 million ounces; more importantly, that gold lies near the Paddington, Western Australian gold plant owned by Norton Gold Fields (ASX:NGF) which is 90% controlled by Zijin (and the other 10 per cent of shareholders are now in the process of being bought out). Last month Zijin bought (from Barrick Gold) a half share in Porgera gold mine in Papua New Guinea.

According to *The Wall Street Journal*, Zijin owns 49.5% of a gold operation in Democratic Republic of Congo, 21.3% of Canada's Pinnacle Mines (and 9.% of Ivanhoe Mines and Pretium Resources, the latter operating in British Columbia), and controls mines in Kyrgyzstan and Tajikistan. (That's in addition to the more than 82 tonnes of gold the company mines in China each year.)

The trend has been there for anyone looking. For example, in the period of a month in 2013 the following developments were reported:

One: Japanese newspapers were reporting that China's yuan was increasingly being used for trade settlements – in the first half of 2013, China settled 2.05 trillion yuan ($334.8 billion) of its trade transactions in its own currency. That's a 16.1% slice of all trade by China. To by-pass the U.S. dollar, China had been concluding currency swap contracts with other countries, including Australia, Brazil, Russia, Iran and Britain (the Bank of England being the first top central bank to allow currency swaps with the yuan). Beijing also created a new oil wholesaling structure that would bypass the petrodollar. As one commentator remarked, this was the first time in 40 years there had been a challenge to the dollar's hegemony.

Two: A South African business newspaper reputed for its coverage of the mining industry said Chinese companies were on a buying spree for gold projects.

Three: In June 2013, 106.4 tonnes of gold was imported by China through Hong Kong. So, in month, China imported more gold than Canadian mines produced in a year. In the first six months of that year, Chinese imports totalled 706 tonnes: that was the annual combined production from the No. 2 through No. 4 gold producing countries in the world – that's equivalent to a whole year's mining in Australia, the U.S. and Russia. And on top of China's own production, the largest in the world.

Four: The Bangkok daily *The Nation* concluded: "China is apparently preparing to adopt a pending gold standard". It also reported that "speculation is widespread that it could be holding between 7,000 and 10,000 tonnes, surpassing the U.S. (official reserves of) 8,113 tonnes.

All you had to do was join the dots.