Gold fever strikes new investors

By CAROLYN CUI in New York and JAMES T. AREDDY in Shanghai

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In developing countries from China to the Middle East, new ways to invest in gold are popping up, transforming the market for one of mankind's most venerable ways to sock away wealth.

The door is opening to investors who previously wouldn't have had access to gold futures and other tools. Their rush to invest has helped fuel soaring prices -- gold crossed $900 an ounce for a time last week, and there are some calls for $1,000 -- while adding volatile new dynamics to the market.

On Jan. 9, thousands of Chinese investors jumped into the bullion market when the country's first gold-futures contract launched. Futures contracts are agreements to buy or sell something at an agreed-upon price at a specified future date, and are traditionally the domain of the pros, not individuals. So far, it has been a bumpy road: The most active contract, for June delivery, soared 6.3% on its debut day, then tumbled 3.7% on Day 2.

A slew of other new investments like these are planned in markets from Dubai to Mumbai. In India, the top lender, State Bank of India, plans this year to start an exchange-traded fund that focuses on gold -- enabling investors to trade gold much like a regular stock. The World Gold Council, a London-based gold-mining industry group, says it plans its first gold ETF in Dubai this year, pending regulatory approval.

Last August, the Osaka Securities Exchange in Japan rolled out a gold-linked bond aimed at smaller investors. And last week, Hong Kong Exchanges & Clearing Ltd. said it plans to list gold-related investment products and ETFs on the Hong Kong Stock Exchange.

Another sign of the shifting power centers in world gold markets: Last year, China became the world's No. 1 producer of gold, pushing South Africa into second place for the first time in more than a century, according to GFMS Ltd., a precious-metals consulting firm in London.

The democratization of gold speculation outside the usual Western financial centers has the potential to magnify the already strong appeal of gold as a hedge against global recession, inflation or just general uncertainty.

Investors world-wide shifted billions of dollars into new gold investments last year, fueling a 31% increase in the price of bullion on the Comex division of the New York Mercantile Exchange, the world's most important gold market. The anticipation that greater Chinese participation could be bullish for the market over the long term helped Comex gold clear the psychological hurdle of $900 an ounce last week, though factors including uncertainty over future U.S. interest-rate cuts later pulled it back. Gold finished the week on Comex at $880.80.

Individuals in India and other Asian countries have stockpiled gold jewelry and bars. In China -- a nation with a rich history of economic upheaval -- gold has long been a particularly popular savings tool. Various colorful frauds have flourished, too. In January, a man named Ka Yulong, who ran a gold-trading firm in Gansu province in western China, was sentenced to 15 years for swindling investors by selling them gold-plated silver bullion. Last August, a swindler in Hebei province was convicted of scamming an investor out of $21,000 by spreading gold dust on stones that he pretended were samples from his mine.

In one recent scandal, a Shanghai trading firm, Liantai Gold Products Co., managed to find a way to trade gold-futures contracts overseas -- circumventing Chinese law -- only to lose millions of dollars of its clients' money in the process. Liantai's total trading volume once reached a remarkable 11.9 billion yuan ($1.64 billion), according to court documents. The case is pending.

Until recently, most buying and selling of gold in China required lugging the metal between brokers and haggling. As recently as a decade or so ago, when Chinese tourists were first permitted to travel to Hong Kong in significant numbers, they often descended first on gold shops in the former British colony to stock up.

Only in 2002 did investors in China get the ability to trade physical gold on the Shanghai Gold Exchange, though individuals couldn't invest in actual bullion until 2005. Even then, the opening was limited.

Today, however, some of the new products emerging in China and elsewhere can be traded over the Internet like stocks.

The Shanghai Futures Exchange has warned that its contracts are primarily meant for big trading firms or gold consumers and producers, such as the nation's expanding gold-mining and electronics industries. Yuan Lianbo, who heads the gold-trading desk at Shandong Gold Group, one of the country's biggest gold miners, said his company has already started trading the Shanghai futures contract to hedge its price risks.

Just before trading began, the exchange tried to limit speculation by individuals by more than tripling the size of a single futures contract to one kilogram of gold from 300 grams. It also increased the amount of margin, or collateral, that investors must post, to 9% from 7% of the value of the contract.

Those moves lifted the minimum investment to about $2,700 -- but analysts say gold futures are still affordable to many Chinese investors.

Among those clients signing up to trade the gold contract through brokerage China International Futures Co., "about 90% are individual investors, most of whom were moving assets from stocks after turning bearish on the stock markets," said Lei Hongjun, deputy manager of the firm's Ningbo branch. Though China's stock market shot up 97% in 2007, it has tumbled recently and stands 13% below its October peak.

Of course, the new ability to trade gold in China won't automatically result in higher prices, analysts say. But the new contract's movement will give the rest of the world a better idea of China's appetite for gold, which will be a key factor for prices.

Gold ETFs are pegged to the price of gold, but trade like stocks. The most active gold ETF, streetTracks Gold Shares, which trades on the New York Stock Exchange, now holds more of the precious metal than the European Central Bank or China's central bank. (ETF shares typically represent a chunk of physical gold.)

Similar funds have been launched in Australia, the U.K., South Africa, Mexico, Singapore and various European countries.

--Bai Lin in Shanghai contributed to this article.

Write to Carolyn Cui at carolyn.cui@wsj.com and James T. Areddy at james.areddy@wsj.com

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