The Chinese Silver Market: Ready for Take-off

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This presentation will cover five topics:
- A marketing mechanism for China’s silver market forms
- Production and consumption of silver increases after the market opens up
- Silver imports and exports flourish
- Development of China’s silver market to have global influence
- Development trend in China’s silver industry

A marketing mechanism for China’s silver market forms

Like gold, silver was historically an important currency and had the function of acting as a reserve currency. It was also used as a crucial settlement means among countries. With more and more silver being used in industry, the currency function has been disappearing. After the foundation of the People’s Republic of China, silver went through the following four stages:

In the initial stages of 1949-1955, the People’s Bank of China promulgated the Regulations of Administration of PRC on Control of Gold and Silver (draft) in April 1950 to keep the Renminbi stable. According to this regulation, gold and silver trade was operated by the PBOC, and trade amongst private individuals was not allowed. A unified purchasing and distributing policy was implemented. The state reserves of gold and silver were increased and the position of the Renminbi was enhanced.

In the period of 1955-1978 before a policy of liberalisation was adopted, the major target to manage the gold and silver industry was rectifying the purchasing policy, encouraging production in order to satisfy the strong demand from the large scale economic construction.

In October 1977, the PBOC promulgated the Regulations of Administration of PRC on Control of Gold and Silver (trial operation) that provided regulations on silver and gold management and was the first one of its kind in China.

From 1978-2000 after a policy of liberalisation was implemented, the major tasks of the management of gold and silver was to adjust methods and strengthen the legal construction to adapt and ensure demand from economic development, reform, liberalisation and people’s living.

In June 1983, the State Council released the Regulations of the People’s Republic of China on the Control of Gold and Silver, which regulated the production, purchasing, distributing, manufacturing, using, recycling, import and export of gold and silver. Then in December, the Detailed Rules of Implementation of Regulations of the People’s Republic of China on the Control of Gold and Silver was released and implemented. In 1984, PBOC and the Customs General Administration of PRC jointly published Regulations of Administration of Gold and Silver Entry and Exit.

Since January 1, 2000, when China’s silver market was completely opened, the PBOC ceased to conduct purchasing and distributing. Silver producers and consumers were allowed to do business directly. The license system on silver wholesale and retail product manufacturing (except coins) has been abolished. Silver is treated as a common commodity like others.

Since 2000, China’s silver industry has seen rapid development. A silver exchange market has basically come into being. The Shanghai White Platinum & Silver Exchange indicates the forming of a silver spot market.

From 1999-2003, silver production and consumption increased. Statistics (see Table 1 on following page) released by the National Bureau of Statistics show that in 1999, when China’s silver market had not been opened, China’s silver production was 1,500 tonnes and consumption was 1,244 tonnes. In 2003, silver production and consumption surged to 4,500...
tonnes and 2,000 tonnes, up by 200% and 60.77% over 1999, which mirrored the influence of the opening up of silver market. In 2004, China’s silver production and consumption is expected to reach or exceed 5,000 tonnes and 2,000 tonnes, continuing the growing momentum.

Table 1: China silver production and consumption 1999-2003 (Units: tonnes)

<table>
<thead>
<tr>
<th>Years</th>
<th>Output (tonnes)</th>
<th>Silver consumption (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>1500</td>
<td>1244</td>
</tr>
<tr>
<td>2000</td>
<td>2000</td>
<td>1360</td>
</tr>
<tr>
<td>2001</td>
<td>2900</td>
<td>1500</td>
</tr>
<tr>
<td>2002</td>
<td>3800</td>
<td>1700</td>
</tr>
<tr>
<td>2003</td>
<td>4500</td>
<td>2000</td>
</tr>
<tr>
<td>2004 (e)</td>
<td>5000</td>
<td>2200</td>
</tr>
</tbody>
</table>

During the period of China’s silver industry development, there emerged some model silver producers. Here we list the top five silver producers in 1999 and 2003, from which we can see how fast the silver production growth is. In 1999, the accumulative output of the top five producers was 700 tonnes while in 2003 it reached 1,420 tonnes, jumping by 103%. (see Table 2)

Table 2: Top 5 silver producers 1999 & 2003

<table>
<thead>
<tr>
<th>1999</th>
<th>Company</th>
<th>Output (tonnes)</th>
<th>2003</th>
<th>Company</th>
<th>Output (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Zhuzhou Smelter Group Co.,Ltd.</td>
<td>192</td>
<td>Zhuzhou Smelter Group Co.,Ltd.</td>
<td>301</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yuguang Gold &amp; Lead Co., Ltd.</td>
<td>1360</td>
<td>Yunnan Copper Group Co., Ltd.</td>
<td>297</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Shaoguan Smelter of Zhongjin Lingnan Group Co.,Ltd.</td>
<td>144</td>
<td>Shuikoushan Metals Group Co., Ltd.</td>
<td>234</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yunnan Copper Group Co., Ltd.</td>
<td>131</td>
<td>Chenzhou Jingui Lead Smelter</td>
<td>292</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yuguang Gold &amp; Lead Co., Ltd.</td>
<td>120</td>
<td>Zhuzhou Smelter Group Co., Ltd.</td>
<td>296</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>700</td>
<td>Total</td>
<td>1420</td>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

The increase in silver production is the result of the following:

- **Rapid growth of base metals production**
  
  Lead output increased 79% from 900 thousand tonnes in 1999 to 1.58 million tonnes in 2003. The output this year is expected to reach 1.7 million tonnes.

  Copper output jumped 52% to 1.75 million tonnes in 2003 from 1.15 million tonnes in 1999. The output this year is forecasted to be 1.85 million tonnes.

  Zinc output grew 32% from 1.7 million tonnes in 1999 to 2.24 million tonnes last year and it is estimated to be 2.45 million tonnes this year.

**Chart 1: Silver output is most sensitive to base metals production (1999-2004)**

- **Recycling industry improved, secondary silver output increased greatly**

  With the development of China’s marketing economy, base metal producers have experienced accelerated growth, whilst China’s silver consumption has risen year-on-year. Accordingly, the silver recycling industry has also grown quickly. Many recyclers have developed from small workshops into large ones, their production increasing from several tonnes per year to several hundred tonnes per year, becoming important silver suppliers in China. Currently, Yongxing in central China’s Hunan Province and Xianju in east China’s Zhejiang Province are the country’s two major silver recycling bases.

  At Yongxing recycling base, the annual production is about 1,000 tonnes. Anodes, used bricks from smelters and imported crude lead are the main raw materials. Most of the silver yielded is primary silver. Those smelters are mainly engaged in lead production. But lead output is very small. The number of producers is very big. Two major producers are Yongxing...
Electrolytic Lead Plant and Chenzhou Jingui Smelter.

At the Xianju recycling base, the annual silver production is about 500 tonnes. Raw materials used are mainly waste developer, contacts, solder, etc. The enterprises are small in scale but large in number. Most of the products are secondary silver. One of the major producers is Xianfeng Previous Metals Co., Ltd.

- **Increase in associated and primary silver production**

After the liberalisation of the silver market, output from associating and silver mines also rose – examples include Jinchuan Nonferrous Metals Group Co., Shandong Zhaojin Group and Hebei Fengning Silver Mine.

**Chart 2: Breakdown of Chinese Silver Supply, 2003**

In 2003, China consumed more than 2,000 tonnes of silver, up by 60.7% over 1999. This year we estimate that China will consume more than 2,200 tonnes of silver, driven by the following factors:

**A sharp increase in silver demand from the industrial field**

With a massive investment increase in heavy industry, China’s consumption of silver alloy, soldering and silver paste has also soared in recent years.

During 1998-2002, China’s GDP, which in 2002 was RMB10,314.9 billion yuan, has seen an average growth rate of 7.6%. In 2003, China’s GDP growth rate stood at 9.1%, reaching a peak since 1997. At the same time, GDP per capita in China breached the US$1,000 barrier for the first time in 2003.

**Electric power industry**

During 1998-2002, China’s electric energy production, which stood at 1,654 billion Kwh in 2002, saw an annual average growth of 9.1%. China’s newly commissioned power suite amounted to 91 million kilowatts of capacity during the same period. In 2003, domestic electric energy production surged 15% over the previous year to 1,900 billion Kwh; newly commissioned capacity added up to 30 million kilowatts and newly constructed capacity reached nearly 30 million kilowatts.

By the end of 2003, domestic electrical generating capacity surged 7.8% over 2002 to 384.5 million kilowatts. Moreover, China was forecasted to invest RMB 1,700 billion in power station construction during the 2003-2008 period, with an average investment of RMB 242.8 billion. National year-to-date electricity production up to 5 May 2004 stood at 170.899 billion Kwh, up 20.07% over the corresponding period of the previous year, and daily average production reached 5.513 billion kilowatts.

**Automotive industry**

From 1998 to 2002, China’s average annual growth of overall automobile output and sales stood at 18.88% and 19.31% respectively, of which cars reached 21.11% and 22% respectively. In 2003, China’s combined automobile output grew 36.6% over 2002 levels. As a result, China has exceeded France to rank fourth in worldwide automobile production after the US, Japan and Germany.

**Chemical industry and home appliance industry**

China consumed 134 million tonnes of refined oil in 2003. In the first quarter of 2004, China processed 66.635 million tonnes of crude oil with a year-on-year growth of 17.1%. At the same time, China also increased production and improved the quality of home appliances such as colour TVs, computers and refrigerators. The establishment of home appliance corporations, such as Changhong, Haier and TCL has offered a broad space for silver consumption.

Furthermore, the foreign manufacturing industry has also begun to transfer to China, with Snyder, Siemens and many others establishing branches.

**Silver demand growth in other fields**

In addition to the above-mentioned industries, diamond, silver products and photographic material fields also maintained an average annual growth rate of 10% in silver demand, while demand in the photographic material field is expected to slow in the future.
International silver trade is brisk.

With the opening of the silver market, China’s silver exports in 2003 jumped 11.6 times from 1999 (see Table 3). In 2003, China exported 2,891.5 tonnes of silver compared with 1999, when the total was only 249.54 tonnes. At the same time, China’s silver powder imports saw a year-on-year increase over the last three years as well.

**Table 3 Chinese silver production imports and exports, 1999-2004 (units: tonnes)**

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metal</td>
<td>41.7</td>
<td>249.5</td>
<td>106</td>
</tr>
<tr>
<td>Powder</td>
<td>125.7</td>
<td>1.76</td>
<td>67.4</td>
</tr>
<tr>
<td>Semi</td>
<td>132.4</td>
<td>57.04</td>
<td>110.5</td>
</tr>
</tbody>
</table>

**Development of China’s silver market to have global influence**

**Chinese silver producers quicken steps towards the international market**

The scale of China’s silver production has been increasing and several new production bases have come into being. China’s silver producers will play an increasingly important role on the international silver market in the future.

At the end of 1999, only one silver brand was listed on the LBMA’s Good Delivery List. The number now has increased to nine. The companies involved in the OTC market are: The Great Wall Gold & Silver Refinery, Zhuzhou Smelter Group Co. Ltd, Zhongjin Lingnan Group Co. Ltd, Yuguang Gold & Lead Co Ltd., Shuioukoushan Non-ferrous Metals Group Co. Ltd., Anhui Tongdu Copper Stock Co. Ltd., Yunnan Copper Group Co. Ltd, Jiangxi Copper Group Co. Ltd. In addition, The Great Wall Gold & Silver Refinery has become an Associate of the LBMA.

**China’s exports backed up global silver supply**

China’s annual silver export growth has breached 800 tonnes since 2001, while global silver supply fluctuated among 100 tonnes per year during the same period. We can see that China has been playing a vital role in global supply and demand balance (see Table 4).

**China’s steady silver increase fuelled global consumption**

In addition to the increase of output, China’s domestic silver consumption has also seen a more than 10% annual growth thanks to rapid development of economy. The stable consumption of silver and some other base material increase has encouraged the international silver market despite a slumping economy in the US, Europe and Japan.

**Table 4 Chinese silver supply and demand, 1999-2003 (units: tonnes)**

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>World supply</td>
<td>22,003</td>
<td>23,614</td>
<td>24,081</td>
<td>24,358</td>
<td>24,482</td>
</tr>
<tr>
<td>Chinese output</td>
<td>1,500</td>
<td>2,000</td>
<td>2,900</td>
<td>3,800</td>
<td>4,500</td>
</tr>
<tr>
<td>Chinese exports</td>
<td>249.54</td>
<td>189</td>
<td>1,199</td>
<td>2,022</td>
<td>2,892</td>
</tr>
<tr>
<td>Increase</td>
<td>-60.54</td>
<td>-1,010</td>
<td>823</td>
<td>870</td>
<td></td>
</tr>
<tr>
<td>Chinese imports</td>
<td>41.7</td>
<td>106</td>
<td>147</td>
<td>201</td>
<td>262</td>
</tr>
<tr>
<td>Chinese consumption</td>
<td>1,244</td>
<td>1,360</td>
<td>1,500</td>
<td>1,700</td>
<td>2,000</td>
</tr>
</tbody>
</table>

**China stabilised international silver prices**

Under circumstances when most metal prices hit record highs, silver prices began to rise, with a maximum increase of 70% since the second half of 2003 as well. The increase in China’s silver supply closely followed the price surge.
Developing trends in China’s silver industry

- China’s silver output will maintain its growth trend, while the amplitude will decrease.
- Fuelled by the flourishing economy, China’s silver consumption will strengthen further.
- Chinese silver companies will have a good chance of cooperating with international silver groups during the next 3-5 years following the increase in silver production and brand influence worldwide.