



Japan & China Changing Investment Patterns

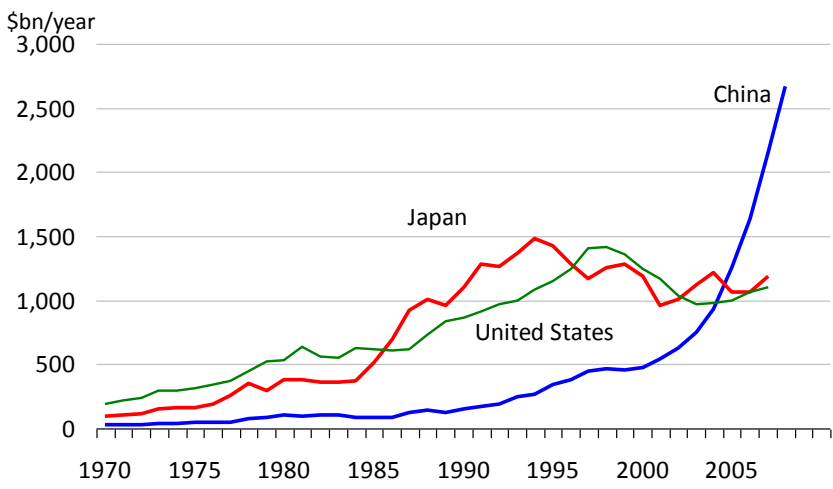
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Proprietary and Confidential



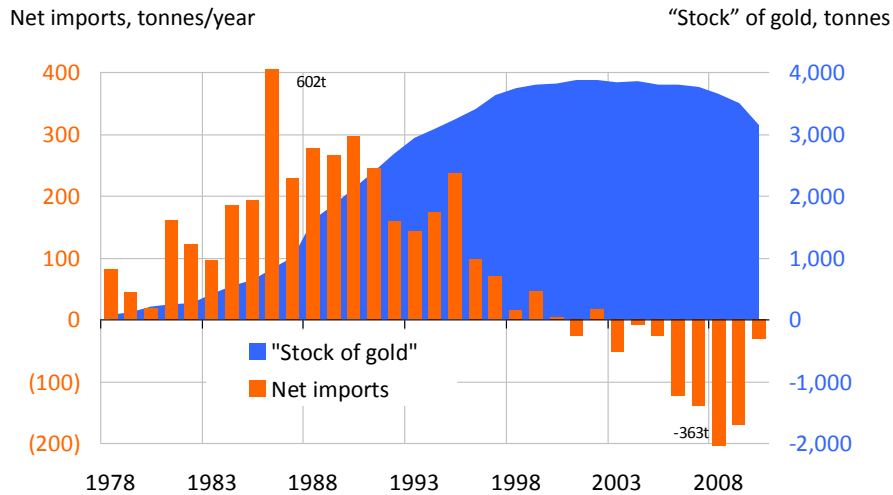
Opportunities: China savings rising dramatically



Source: Mitsubishi Corporation calculations. Note domestic saving only.

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Risks: Japan becomes exporter of gold

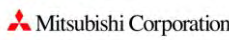


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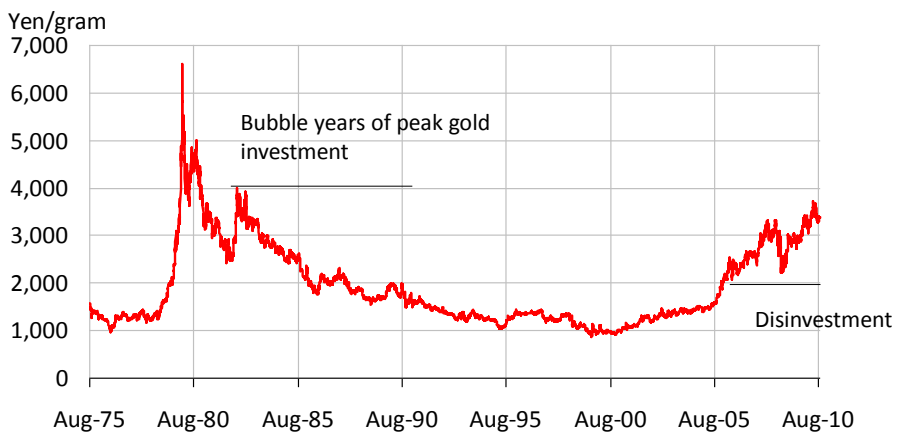
Japan – Why has net gold investment fallen?

- Disinvestment
 - As gold price exceeding that during “bubble economy”
- A shortfall of new investment
 - Rising gold price reduces affordability
 - High level of Japanese savings declining

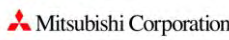
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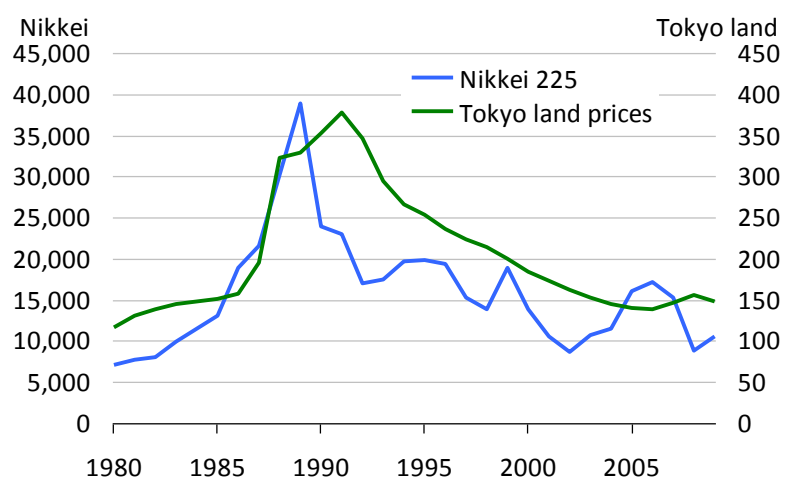
Japan - Yen gold price back to 1980s levels



Source: Bloomberg



Japan - other investments

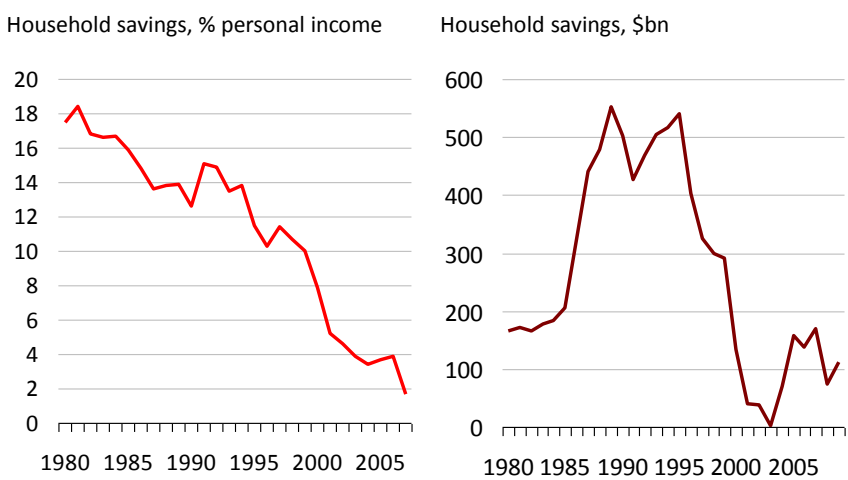


Source: Mitsubishi Corporation, Bloomberg





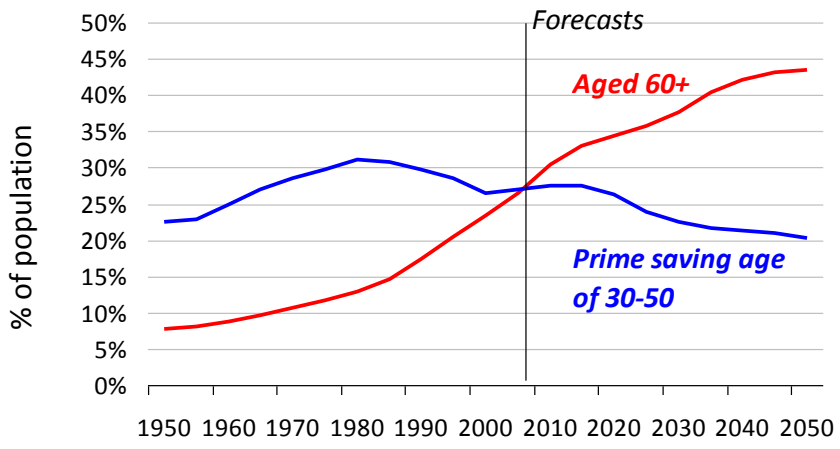
Japan - Savings rate has fallen significantly



Source: Mitsubishi Corporation from national accounts data



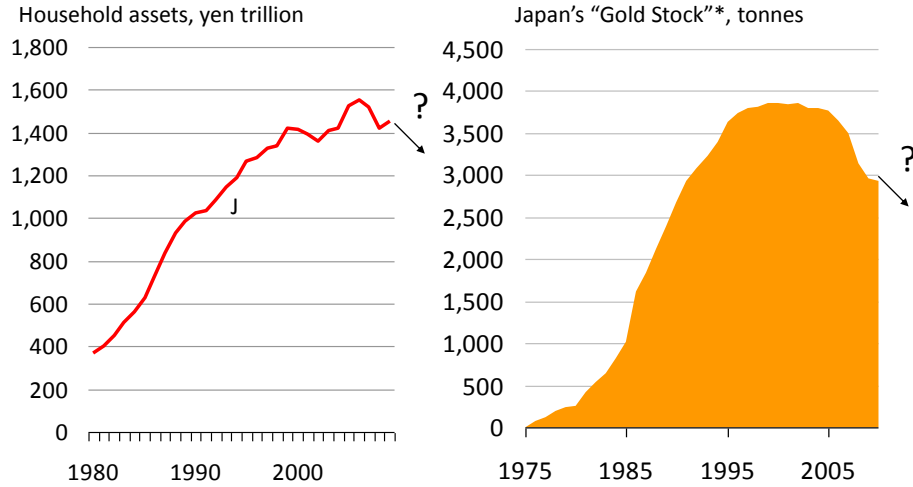
Japan - Demographic outlook bleak



Source: Mitsubishi Corporation from UN data



Japan – assets set to decline?



Source: Bank of Japan, Ministry of Trade * Cumulative imports since 1978; ignores embedded exports, mine production

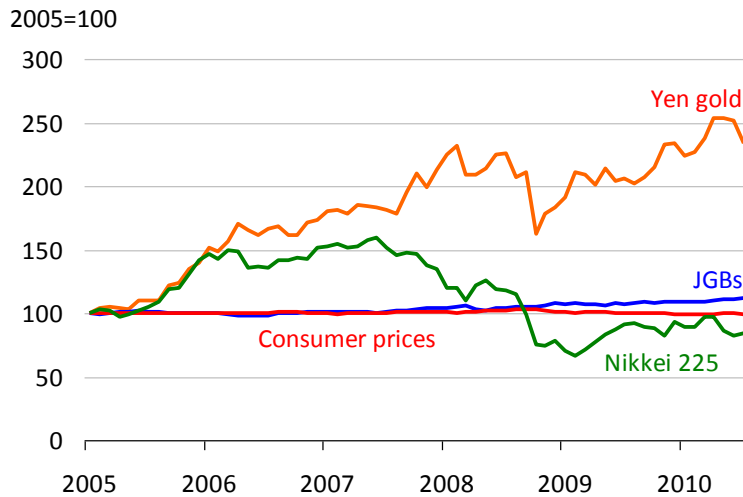
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Japan – increasing gold's market share

- Gold price recent history much better
- Outlook for other investments remains uncertain
- New products mean easier access to gold

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Japan - gold price much stronger



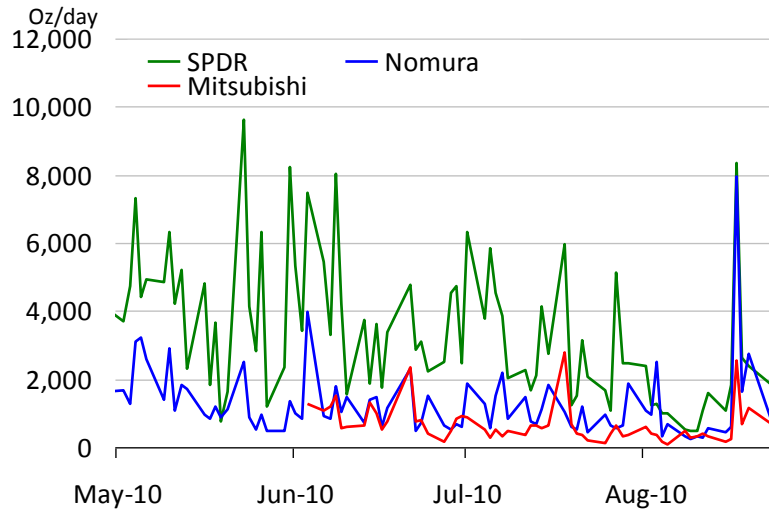
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Japan – innovation with ETFs

- First Japanese listed fund in 2007, first listing of physically-backed fund in 2008
- Mitsubishi UFJ Physical Gold ETF first physically-backed fund to be based in Tokyo
- Volumes for all ETFs relatively low at moment with only small amounts of gold held

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Japan – ETF trading volumes



Source: Company data, Bloomberg, Mitsubishi Corporation

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Japan - ETFs expanding the market

- Small investors, especially younger investors used to buying equities
- Investment/Pension funds
- Marketing/Advertising

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Japan ETFs: promotion



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いつの時代も実物資産。

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圖委託者:三菱商事 圖受託者:三菱UFJ信託銀行

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China: similarities and differences

- Gold market liberalising after tight controls
- Large and growing economy
- High savings rate but conservative investors
- Demographic challenges but some years away
- Appreciating currency could be an issue but market expanding in era of gold bull run

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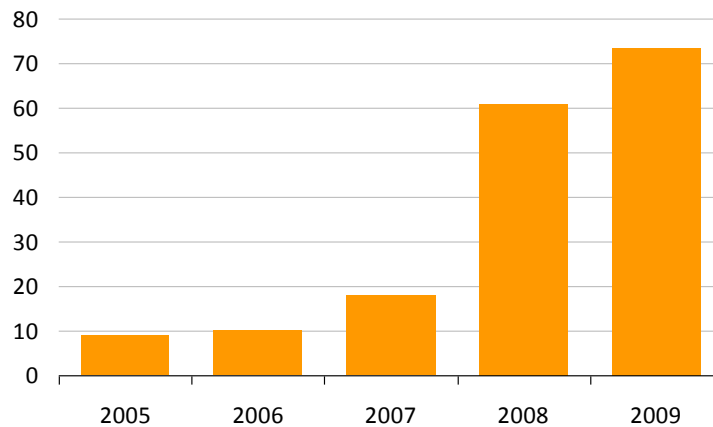
China - Gold market liberalisation

- Bar hoarding (gold investment) was illegal
- Market liberalisation from late 1990s
- Shanghai Gold Exchange launched in 2002
- Investment products through banks only available in last few years
- Further reforms announced in 2010

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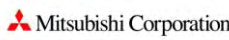
China - gold investment market growing

Tonnes/year

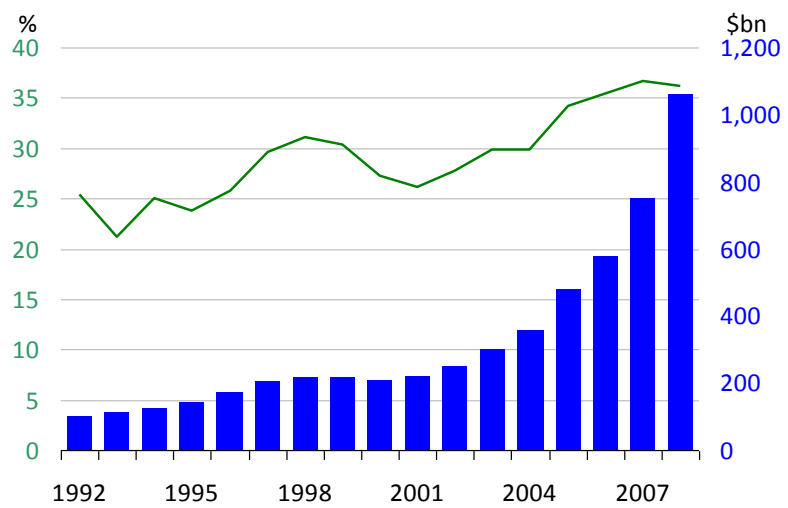


Source: GFMS Limited

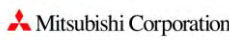
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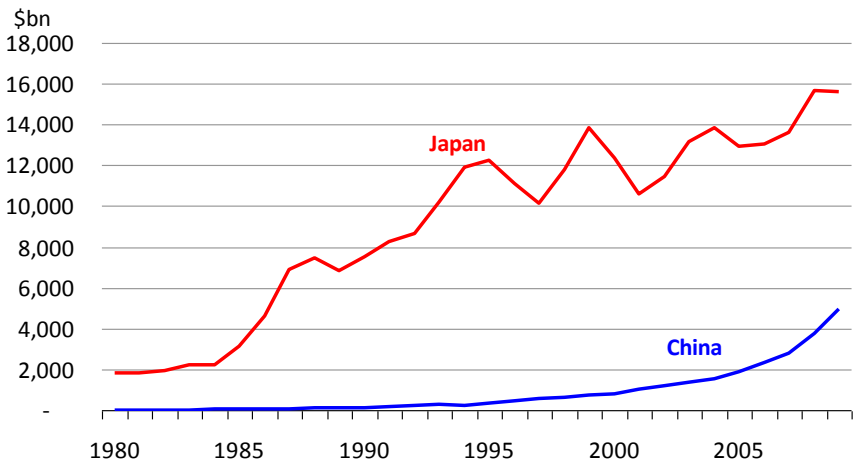
China - High household savings rate



Source: Mitsubishi Corporation, IMF, NBS



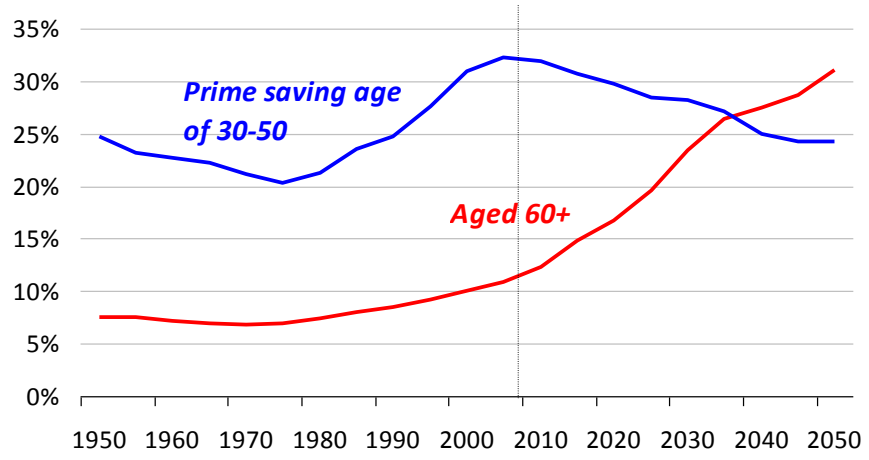
China - stock of savings remains smaller



Source: Mitsubishi Corporation calculations. Note household savings.



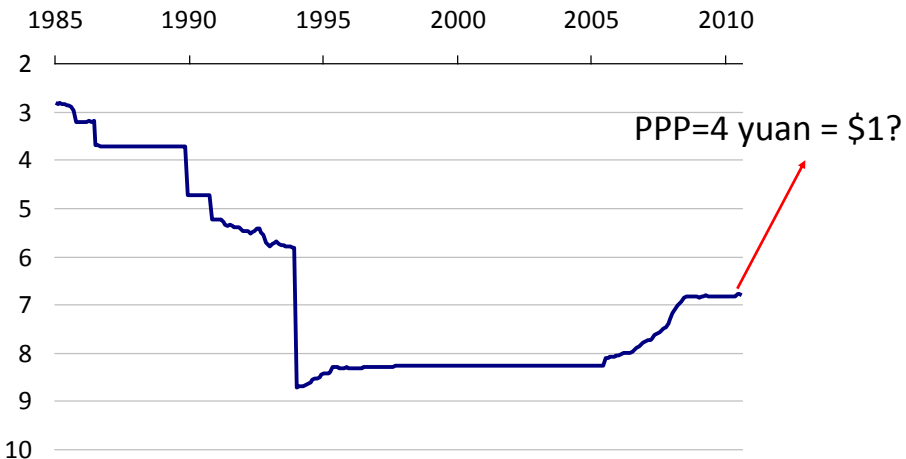
China - Demographics good...for now



Source: Mitsubishi Corporation from UN data



China - Yuan strength a problem?



Source: Bloomberg

Conclusions

- Gold follows the money
- **Japan:** aging population, declining yen savings & current gold stock seems adequate
History of innovation (GAP) and growth from ETFs
- **China:** young population, high savings & low gold stock
Gold investment growth not inevitable, needs products investors want.

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Japan background – 1970s/80s market expanding

Imports, tonnes/year



1971: Ownership allowed

1973: Imports deregulated

1978: Exports deregulated

1982: Futures trading starts

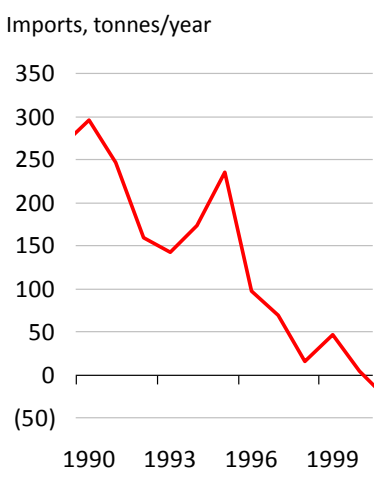
1986-1990: "Bubble years"

Source: Japan Ministry of Finance

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Japan background – 1990s consolidation & GAP

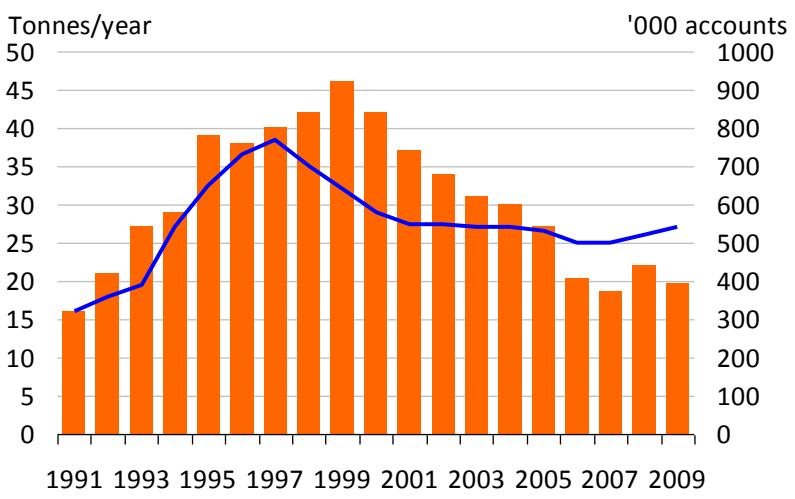


- Economic bubble bursts and “lost decade” begins
- GAP dominates gold investment (launched in 1980 but expansion after 1990)

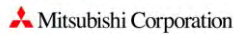
Source: Japan Ministry of Finance



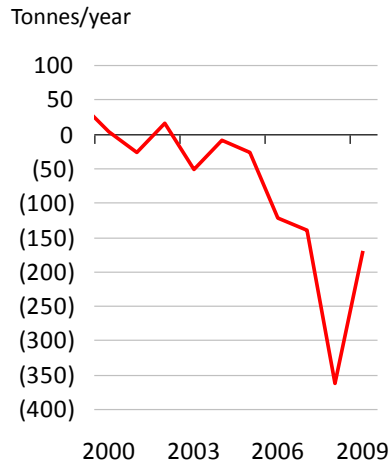
Japan background – Gold Accumulation Plans (GAP)



Source: World Gold Council



Japan background – 2000s net investment demand negative



- Since about 2004 investment flows reversed
- Decline in other areas of demand means Japan becomes net exporter of metal

Source: Japan Ministry of Finance

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