



The Allure of Panda Coins

January 18, 2013

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While I waited in another long line in San Francisco International Airport recently, I struck up a conversation with the gentleman behind me. It turned out we were both returning from research trips in China. But rather than being an investor of securities as I am, this fellow traveler was an investor in Chinese coins, specifically, panda coins.

“Panda coins?” I asked. Thus began my inquiry into these beautifully designed commemorative pieces. Just as the eagle represents the U.S., the panda represents China. So it should be no surprise that when China’s Mint decided to develop a coin series for export in the late 1970s, they decided on this cute cuddly animal as their symbol. The first panda coins were minted gold in 1982 in four sizes ranging from 0.1 to 1 ounce. According to my newfound panda coin expert, Peter Anthony, these coins quickly sold out and prices on the secondary market were as high as 10 times the underlying value of the gold. Since 1982, a new series of panda coins have been minted every year. Over the last 30 years, the coins have been minted in gold, silver, platinum, palladium, copper and brass, in sizes ranging from 1 gram to 5 kilograms.

Values for these coins have varied widely. From a low of about US\$40 for a 2013-series 1 ounce silver panda coin up to US\$1.6 million for a 1991-series 5 kilogram yellow gold coin. The value of these coins are largely determined by popularity and scarcity. While China’s Mint publishes the mintage for each series, often a large discrepancy exists between the published mintage and the actual numbers still in existence. What happens to these coins after they are produced is often a mystery. Many are set into jewelry or melted for their underlying metal value — leaving them relatively hard to come by. Just like many over-the-counter securities without much price transparency, buyers may just take on a buy-and-hold strategy, so very few coins are typically available for sale.

What I find so interesting about these coins is the evolving investor base. Just like so many other valuables initially conceived for exports, demand seems to increasingly come from wealthy, local Chinese instead of overseas. Until 2008, the largest market by far was North America, with Germany a distant second. Since the global financial crisis, China has emerged as the largest market for these collectible coins. Mr. Anthony estimates that about 80% of sales of both new and older panda coins are now sold in China.

When capital controls dictate the types and availability of investment opportunities to China’s investors, it’s no wonder that demand may be high for real assets such as Panda coins. While the foreign press has focused largely on restrictions that keep foreign financial firms from investing in China, less is written about the prohibitions on local Chinese from investing overseas. The Qualified Domestic Institutional Investor, or “QDII,” arrangement that enables certain qualifying local financial institutions to invest offshore has broadened in scope over recent years. However, most Chinese today still have little access to international markets. In a recent speech, President Hu Jintao suggested that the Party needs to implement a more proactive “opening up” strategy to encourage domestic entities to accelerate outbound investments. I am left to wonder if further liberalization of capital markets could have much broader implications.

In addition to providing domestic Chinese with greater investment opportunities, in the long run, liberalization could lead to greater transparency and better corporate governance in China as local firms evolve to better compete for capital with foreign alternatives. Could it even potentially cause local demand for Panda coins to fall? If demand stems largely from a dearth of investable opportunities for wealthy locals, this might seem a logical conclusion. Thus far, however, it appears that with rising Chinese affluence, demand still far outweighs supply for such coins. Not only are they cute, they also appear to have been good stores of value.

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