China has moved to liberalise its gold market further, increasing the number of banks allowed to trade bullion internationally and announcing measures that will encourage development of gold-linked investment products.

The move by Beijing's central bank comes as the country's investors pour record amounts of money into gold, in a trend that is becoming a significant factor on global prices.

China is the world's largest gold producer and the second-largest consumer, after India, but its domestic market remains constrained by limited investment products.

"This is a positive sign for the gold market," said James Steel, precious metals strategist at HSBC in New York.

"The Chinese statement reaffirms the vigour of the emerging markets' demand for retail physical bullion."

Gold prices rose in London, partly on the back of China's announcement, but also on signs of robust buying from India's jewellery sector.

Spot bullion traded at $1,190 a troy ounce, up from a three-month low of less than $1,160 an ounce last week.

GFMS, the London-based precious metals consultancy, said recently that Chinese investors, who are building wealth at an unprecedented rate, were diversifying their assets into gold to "protect themselves against inflation".

China said "the need to perfect foreign exchange policies in the gold market is clear."

It called for better financing services for bullion, opening the door for Chinese banks to hedge their gold risk overseas.

The central bank also hinted at changes in taxes on bullion. But it failed to endorse gold as an investment and to suggest it planned to increase the size of its bullion reserves, one of the world's largest.

The new gold guidelines are part of the gradual internationalisation of the Chinese banking system. Restrictions on some renminbi-denominated investment products in Hong Kong have been lifted recently, and renminbi cross-border settlement programmes have been expanded this year.