

Golden run ends

There are clear indications that the gold rally is coming to an end after 12 long years.

STRONG SIGNALS

There could have been no clearer signal than the one from China that gold's wonderful 12-year rally is all set to end. On March 13, Yi Gang, Vice-Governor of the People's Bank of China, told the media that there would not be any massive addition to his country's gold reserves of 1,055 tonnes.

A couple of days earlier, billionaire investor George Soros cut his holdings in one of the biggest gold-backed exchange-traded funds (ETF), by 55 per cent. The \$8.5-billion Soros Fund Management cut its holdings in the ETF to 600,000 shares, worth some \$97 million. This was down from the 1.3 million shares, worth over \$225 million, it held during the end of September 2012.

PRICES DIP

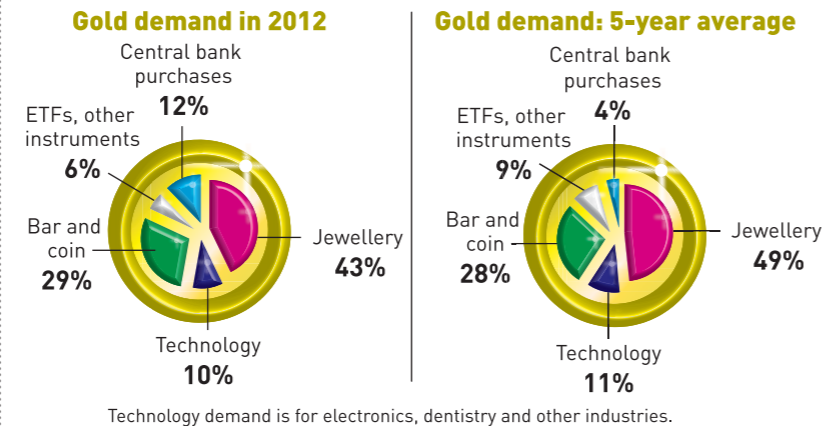
Gold prices have dropped by 5 per cent this year. A clear indication that gold has begun to lose its charm came in

the World Gold Council's demand-supply data for 2012. Although demand for gold rose to a record high of \$236.4 billion in terms of value, the demand in terms of volume dropped by 4 per cent. It was

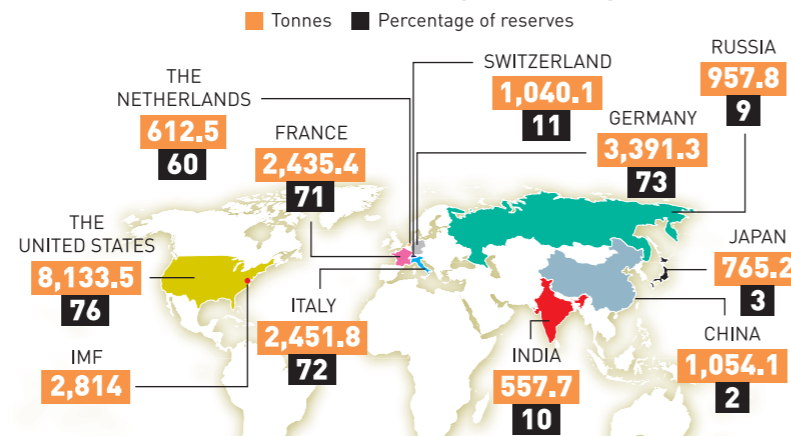
the first time since 2009 that the demand for gold in volume dropped.

WANING INDIAN INTEREST

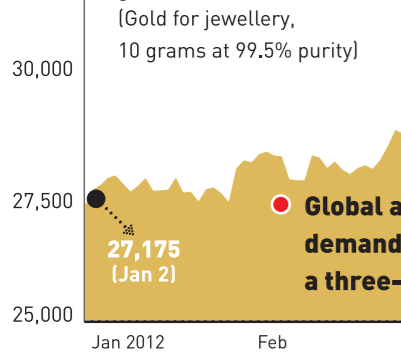
In India, demand dropped 12 per cent in tonnage terms, again a three-year



Top reported official gold holdings



How the gold price moved



Global and Indian demand for gold fell to a three-year low in 2012

Appetite for the yellow metal in India dropped by 12%

In rupee terms, the precious metal was dearer by 21%

Still, Indians spent Rs. 2.52 lakh crore on buying gold

Worldwide demand for bars and coins dropped 17% but demand for ETF gold increased 51%

In view of the high prices, use of recycled gold more than doubled in 2012

low. As gold prices ruled above Rs.30,000 for 10 grams in 2012 and the rupee turned volatile against the dollar, Indians turned cautious on buying gold. Further evidence of waning Indian interest has come from the Forward Market Commission's data. They showed that the value of gold trade dropped by 23.28 per cent to Rs.70,000 lakh crore up to February 15 in the current fiscal.

Globally, investments in gold through ETFs increased by 51 per cent in 2012, but there were clear indications of waning interest as they dropped 16 per cent in the fourth quarter. This year has brought more grief for the precious metal.

Gold has found it tough, for technical reasons, to climb the \$1,900-an-ounce mark after it hit a record \$1,921 on September 6, 2011. (One ounce is approximately 31.104 grams.) This year, gold has dropped below \$1,600 and is finding it difficult to cross the mark.

OTHER AVENUES

Signs of an economic recovery, particularly in the United States, are making investors sell gold and opt for riskier assets such as equities. In India, the government is trying to discourage customers from buying gold as it is leading to serious issues such as a widening trade deficit. The Centre has increased the import duty on gold and is trying various other means, such as gold-backed investments and saving schemes, to discourage imports and physical buying. The Finance Ministry has also brought in a new rule under the Money Laundering Act, wherein jewellers will have to get the details of customers buying gold for above Rs.50,000. As is evident from the emanating signals, gold is really up against the tide and is in for a rough ride.

World gold demand

	Volume (in tonnes)		Value (in \$ million)	
	2011	2012	2011	2012
Jewellery	1,972.1	1,908.1	99,641	102,384
Technology	452.9	428.2	22,885	22,978
Electronics	319.9	302.7	16,164	16,241
Other industrial uses	89.6	85.7	4,529	4,567
Dentistry	43.4	39.9	2,192	2,141
Investment	1,700.4	1,534.6	85,916	82,346
Total bar and coin demand	1,515.4	1,255.6	76,566	67,373
Physical bar	1,182.4	941.1	59,742	50,498
Official coin	245.2	201.1	12,388	10,790
Medals/imitation coin	87.8	113.4	4,436	6,086
ETFs and similar products	185.1	279	9,350	14,973
Central bank net purchases	456.8	534.6	23,081	28,684
Total demand	4,582.2	4,405.5	231,523	236,392

London PM fix was \$1,571.5 an ounce in 2011 and \$1,669 in 2012

The London gold fix is a benchmark for pricing the majority of gold products and derivatives in world markets. It is a procedure by which the price of gold is determined twice on a business day in the London market by the five members of The London Gold Market Fixing Ltd. The five members are Scotia-Mocatta, Barclays Capital, Deutsche Bank, HSBC and Societe Generale.

India supply-demand situation

	2011	2012
Supply (in tonnes)		
Net imports	969	860
Recycled gold	59	117
Other sources	12	10
Total	1,040	987
Demand		
	2011	2012
	Volume (in tonnes)	Volume (in tonnes)
	Value (in \$ bn)	Value (in \$ bn)
Jewellery	618.3	552
Bar and coin	368.0	312.2
Total	986.3	864.2