Gold To Enter Multi Year Bear Phase?

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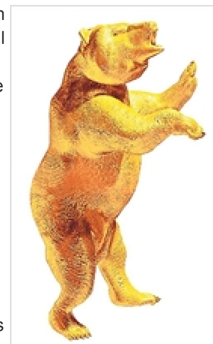

Gold prices have been falling for three continuous weeks after making a high of $1390 mark in the international markets. This trend is likely to continue in the coming days in the international as well as domestic markets. Given the fact that the growth in the US economy is showing signs of recovery, the Federal Reserve is likely to completely end the QE3 and this would raise the interest rates in the US by mid 2015.

The impact of domestic factors, like the value of the rupee which is driven by the inflows in the equities and the movements in the dollar also had an impact. In addition, there has been lackluster physical demand across a host of regions as gold markets need the trigger from the physical side for prices to rally and this will continue to shadow gold prices in coming days. Does it means that the yellow metal will loose its shine and enter a multi year bear phase?

“Yes,” says Vikram Dhawan, Director of Equentis Capital. “The triggers for stronger gold prices like Central Banks buying, weaker dollar, elevated geopolitical risks, volatility in currency and equity markets and last, but not the least; strong physical demand are absent for the moment. Moreover, Gold ETF investors continue to exit at rallies. All this has the potential to nudge the Gold Market into a multi-year bear market and we may be in middle of one,” says Dhawan.

Dhawan points out that physical gold sales in India, which is the largest physical gold market in the world, has fallen significantly, thanks to the quantitative restrictions on gold imports imposed by the government. “Globally, Central Banks are not aggressively buying gold at the moment. These along with sizable redemption’s from Gold ETFs or ETPs are keeping a lid on the prices,” he says.

According to a Macquarie Economic Research report quoting the Ministry of Commerce, gold imports slowed to US $39bn in 2013 from US $53bn registered in 2012. Specifically, on a monthly basis, gold imports to India have shrunk to an average of US $1.3bn since June 2013, registering a decline of 74% over the US$5.1bn (average) recorded in the previous 12 months. Government measures including increases in customs duty, measures to disincentivise gold imports and rupee depreciation all helped moderate Indians’ demand for gold. A bull run in equities might have also lead to money moving towards equities after this recent appreciation in prices and resulted in some correction as per experts.

The latest data from World Gold Council (WGC) indicates that China has surpassed India to become the world’s largest consumer of gold in 2013.

Dhawan feels that we may continue to witness bear-market rallies, but prices will eventually revert to lower ranges. “However, we don’t see the prices going below 1100 $/oz and staying there for long, as it may prompt mine closures or mothballing of existing projects,” says Dhawan. “Gold prices may range between 1100-1400 $/oz in the medium-term,” he says.

Naveen Mathur,Associate Director-Commodities & Currencies, Angel Commodities Broking, indicates that the gold investor index, which measures the balance of customers to gold holdings; over those reducing them was down to 53 in March from 53.5 in February. “The fall was continuous for the first three months of this year,” he says.

“Looking at the growth prospects in the US, the FED has already signaled an end to its bond buying, whereas, the ECB has opened doors to ease monetary policy further, if needed to boost the Euro zone economy. This in turn has raised hopes of a stronger dollar, i.e. negative for the yellow metal,” says Mathur.

However, experts suggest that there would be a short term appreciation in the price of gold. “Short term appreciation would be on account of escalating Geo-political tensions between US, Russia and Ukraine. Russia has raised the gas price for Ukraine on Thursday for the second time last week, piling pressure over Ukraine as it is already on the brink of bankruptcy in the crisis over Crimea,” says Mathur.

“Also, if India removes its curbs on imports, we might see incremental demand chipping in which can act as a positive factor on the domestic front,” he explains.
“In the near term the gold prices could move in the range $1240-1350/oz whereas, in domestic markets gold prices would move in the range Rs 27300-29700 per 10 gram. Gold prices in the international markets would stabilize around $1180/oz mark whereas in the domestic markets prices would stabilize around Rs.26500/10gms mark,” Mathur predicts.

According to Pramit Brahmbhatt, Veracity Group CEO, considering global investors are reducing their gold portfolios and the dollar is getting weaker against the rupee "We can see a sharp decline in gold in the Indian market compared to the international market. We can see range of Rs 24500 to 26800 per 10 grams in the coming months," says Brahmbhatt.

"Stabilizing US and UK markets has brought global investor attention back to the financial markets, so the demand for gold as a safe heaven has gone down," he says.

However, according to the reports from the central bank, it is considering removing some of the curbs to trade that have crippled imports. In that case, India the second highest consumer of gold will likely import more gold, which is also likely remove some sheen in gold prices. And if a stable government comes in, the rupee is likely to strengthen which can exert downside pressure on prices, believe experts.

"In fact, I am bullish about the long term where one can see the price going to $1400-1500 i.e. two years from now once the dollar regains equilibrium and the long run relationship between the two variables is re-established," says D. R. Dogra, MD & CEO, CARE Ratings.

Dogra feels that in the very short run, prices would go up because typically demand increases in India in April-May due to the marriage season as well as channeling of rural income to gold. "But given the curbs put by the government on the official route, demand may be lower than last year," he says. "If we are talking of the next 6 months $1200-1300 will be the range one can look for," says Dogra.

Considering lower gold imports alone have contributed to nearly half of the narrowing in India's CAD to US$40bn estimated in FY14 vs. FY13 experts believe the new government may go easy on curbs.

"As a stable government may result in appreciation of the Rupee, that may give the government of the day some breathing space to roll-back some of the quantitative restrictions on gold imports," says Vikram Dhawan. "This will have a mildly positive impact on the gold prices in the long-run," he concludes.

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