

Update on gold for February 2021

March 1, 2021

Gold price movement

The rise in interest rates and low liquidity created pressures on the international gold prices during February 2021. Alongside, the widespread rollout of coronavirus vaccines in various nations created hopes of a faster global economic recovery, which capped the upside potential of gold price movement. However, the downside potential of this metal's prices was restricted by the gradual spread of new strains of Covid-19 which led to fresh lockdowns in various cities of developed nations like UK and Canada, among others.

February 2021			YoY growth
Monthly average (\$/ounce)	M-o-M	Y-o-Y	11M-FY21
1,808	-3.1%	13.0%	26.6%
Source: CARE Ratings, Bloomberg			

Chart 1: Global gold price movement in February 2021 (\$/ounce)



Source: CARE Ratings, Bloomberg

The average of monthly gold prices declined by 3.1% m-o-m to \$1,808/ounce during this month. However, on a Y-o-Y basis, prices were still higher by 13% and for cumulative 11 months of FY21, prices were higher by 26.6% Y-o-Y.

Within the initial four days of the month, prices declined 3.9% to \$1,791/ounce, the first time in 2.5 months of falling below \$1,800/ounce. In the next four trading sessions, prices rose 2.9%. In the following four days, prices hovered in the range of \$1,820-1,840 and fell on the next day below \$1,800. In the following 9 trading days, prices remained under pressure and the month ended at \$1,729/ounce on 26th February. Prices were seen to be cooling off in the domestic market as well, largely owing to a fall in import duty on precious metals.

The wide acceptance of vaccines in various parts of the world led to investors preferring parking their money in riskier assets, which was visible in the jump of various global indices during the month. Other factors that led to volatility in gold prices this month were supportive monetary policies, rise in bond yields of large economies such as USA, Canada, UK, Japan, China and Brazil.

Global gold investment demand

Investments in gold-backed ETFs continues to remain firm as data from World Gold Council shows that global inflows in such assets stood at \$7,238 mn for YTD 19 February 2021. This led to collective gold ETF holdings reaching 3,785 tonnes and AUM of 3,727 tonnes as of 19th February 2021.

In India, gold demand continues to grow as gold imports for 10M-FY21 reached \$20,820 mn or -15.5% Y-o-Y. In quantity terms, it stood at 370 tonnes, which is lower by 41.4% when compared with similar period of previous year. Nearly half of this quantity was imported from Switzerland, followed by U.A.E., South Africa, Peru, Hong Kong and Ghana, among others.

Concluding remarks

It does seem that the consistent gold rally which started due to signs of a global recession, has now ended, as m-o-m prices have been cooling off. The low interest rates and higher liquidity scenario is ebbing. The fall in precious metal prices will be supported by the ongoing widespread rollout of vaccines, which augurs well for investors who wish to park their money in riskier asset classes like stocks and hence lower portfolio weightage in safe haven assets like gold.

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