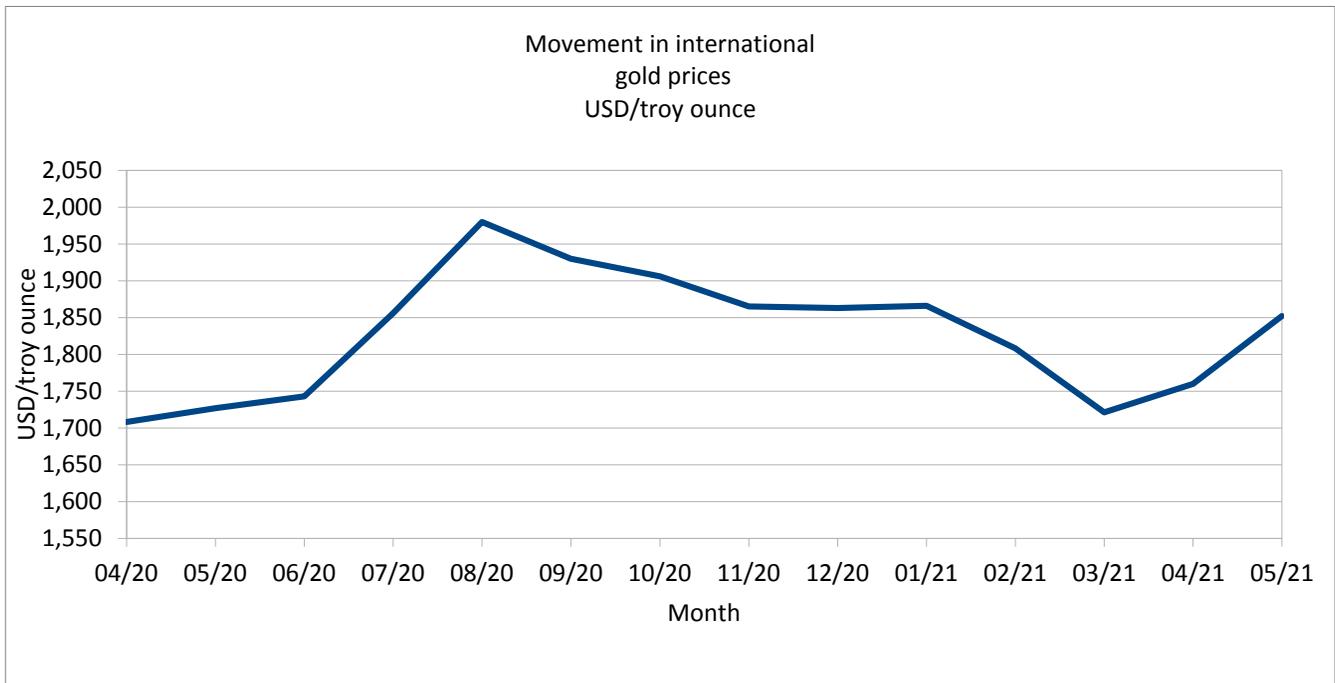


Gold Prices reach four-month high in May

June 2, 2021

Gold prices continue northward journey on weak dollar, cryptocurrency crash

International gold prices rose unabated for the third consecutive month and even reached their four-month high in May 2021. At USD 1,852 per troy ounce, gold enjoyed its highest valuation since January 2021 and prices were sharply higher than the monthly average of USD 1,761 per troy ounce for the preceding month of April. The month of May saw gold regaining strength following growing inflationary fears, a weak US dollar and the cryptocurrency crash of 19 May 2021.



Gold prices were poised to post their biggest weekly gain in over four months at the beginning of May itself. After easing to USD 1,768 a troy ounce on 30 April, gold prices jumped to USD 1,792 per troy ounce as fears surrounding higher inflation and weaker-than-expected US employment data renewed the interest in gold. Around the same time, the US dollar weakened in comparison to other currencies and the US Treasury yields fell below 1.60 per cent to hover at around 1.56 per cent. Gold usually gains when interest rates are low as low rates reduce the opportunity cost of holding the metal. Together, the depreciation of the dollar against most currencies and the receding Treasury yields strengthened the rally in gold prices and helped them breach the USD 1,800 per troy ounce barrier on 6 May 2021.

The cryptocurrency bust also worked in the favour of gold. The value of Bitcoin nearly halved to USD 30,000 on 19 May 2021 after China issued a warning that it intends to crack down on cryptocurrency mining as part of its efforts towards controlling financial risks. Along with this, vehicle maker Tesla suddenly decided to stop car purchases using Bitcoins and even trimmed its own Bitcoin investments. The ensuing sell-off increased the momentum in gold prices as investors moved back to traditional investment avenues such as gold. International gold prices correspondingly rose to USD 1,882 per troy ounce on 19 May from USD 1,868 per troy ounce in just a day. Although Bitcoin prices began to stabilize in the week that followed, the volatility seen earlier continued to result in outflows from Bitcoin funds and increased preference for gold. International gold prices proceeded to scale new heights and averaged over USD 1,900 per troy ounce through the last week of May.

Domestic gold prices also edged higher in May 2021. While domestic gold prices mimic international prices, they also include a 7.5 per cent import duty, a 2.5 per cent agricultural cess and a three per cent GST. Gold prices averaged Rs.47,921.1 per 10 grams during the month, the highest since January 2021. The demand for physical gold remained negligible during the month as most jewellery stores remained shut due to intermittent lockdowns across states and the high international gold prices. The demand for gold may pick up once the lockdown restrictions ease, but the pick-up is unlikely to be strong given that gold prices are unlikely to scale down significantly

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