

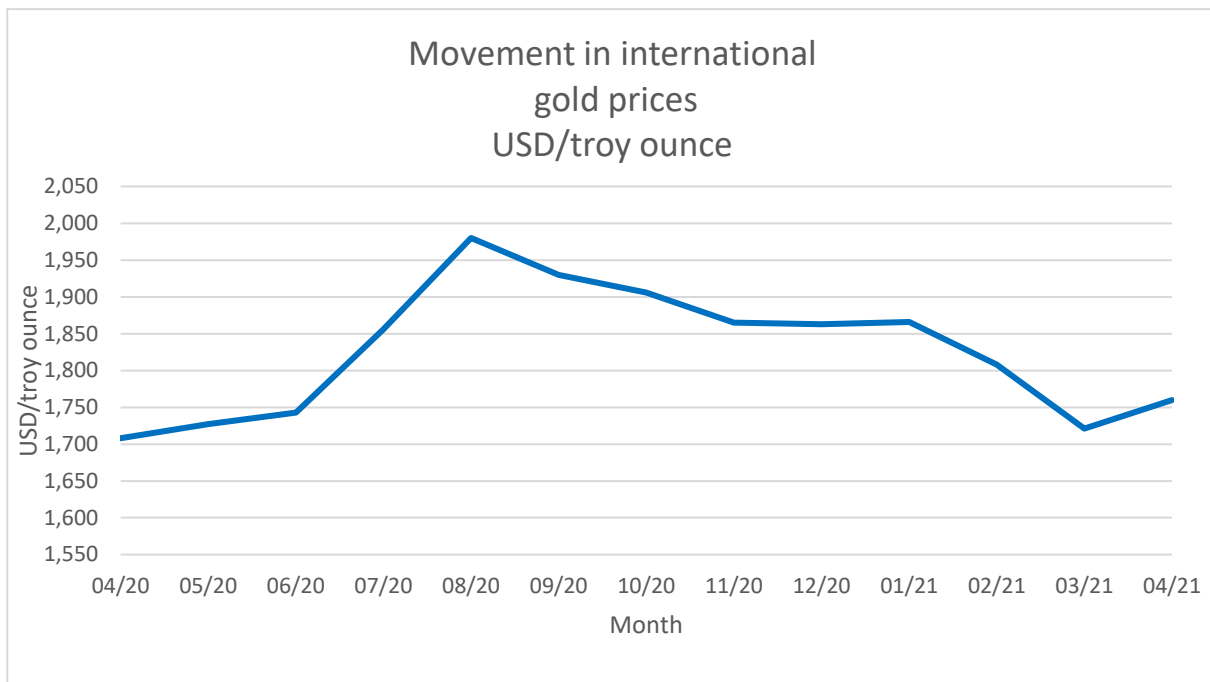
# Review of gold prices and demand

May 7, 2021

## International gold prices stage mini rebound before easing again

International gold prices inched up to a monthly average of USD 1,761 per troy ounce in April 2021 after softening to USD 1,808 a troy ounce in February 2021 and then to USD 1,718 per troy ounce, the weakest since June 2020, in March 2021. When compared to their year-ago levels, gold prices averaged 4.7 per cent higher in April 2021 than in April 2020.

Gold prices were relatively benign at the beginning of April. Higher US treasury yields, and improved risk appetite of investors lowered the appeal of gold and increased the opportunity cost of holding the non-yielding precious metal. Towards mid-April though, prices edged much higher and even reached USD 1,793 per troy ounce, their highest levels in close to two months, as deteriorating coronavirus conditions in Europe and the resurgence of the coronavirus in India put global recovery at risk and increased the safe haven appeal of gold. Moreover, around the same time, the 10-year US treasury bond yields came down from 1.74 per cent on 31 March 2021 to 1.56 per cent on 15 April before rising slightly to 1.57 per cent on 22 April 2021. As bond yields receded, gold prices rose from USD 1,716 per troy ounce to USD 1,793 per troy ounce during the same period. Interest rates and gold prices share an inverse relationship.



The rally in gold prices was stopped short when, in the last week of April, the US Fed chair decided to continue the Fed's ultra-low interest rate policies and the longer-dated US treasury yields started rising once again. The US dollar also strengthened against the Pound and the Euro as better-than-expected corporate results and expectations of a strong recovery of the US economy increased consumer confidence. This, in turn, capped the upside potential of gold prices. International gold prices correspondingly began to cool off and ended the month at USD 1,768 per troy ounce.

## Gold imports register manifold growth in March 2021 quarter

India's imports of gold grew by a robust 245.4 per cent to USD 17.8 billion during the March 2021 quarter. The growth in imports was higher when compared to the preceding quarter of December too. Imports during the March 2021 quarter were 77.9 per cent higher than those during the December 2020 quarter.

The growth in gold imports during the March 2021 quarter was largely on account of a low base of the March 2020 quarter when the fast spread of the coronavirus pandemic had resulted in a 36.9 per cent contraction in gold imports. Along with the base effect, a pick-up in demand for jewelry ahead of the wedding season and the auspicious occasion of Akshay Tritiya also contributed to higher demand for imported gold. During the March 2021 quarter, the demand for gold also witnessed a push due to lower domestic gold prices following reductions in import duties announced in the Union Budget and largely favourable international gold prices.

India's imports of gold		
Quarter	USD million	Growth (Y-O-Y)
December 2019	7,254.6	2.68
March 2020	5,157.0	-36.88
June 2020	686.6	-94.00
September 2020	6,109.6	40.46
December 2020	10,009.5	37.98
March 2021	17,810.6	245.37

Source: Directorate General of Commercial Intelligence & Statistics, Ministry of Commerce, CMIE

### Resurgence of the pandemic to impact demand

The stronger second wave of the coronavirus pandemic is expected to impact the demand for gold jewelry, and, in turn the demand for gold in India. The fast spread of the pandemic and the concomitant lockdowns across states are estimated to have dampened the demand for gold during the crucial wedding season and other auspicious occasions as jewelry stores remained shut and consumers avoided venturing out. Gold demand as indicated by higher imports was strong towards the end of the 2020-21 financial year, but it is nascent and needs to sustain in the wake of the pandemic. Going forward, the pace of growth in gold imports will hinge on the impact of coronavirus pandemic receding and consumer demand returning to growth once again.

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