

Update on gold for December 2020

After 3 consecutive months (Sept to Nov 2020) of decline in international gold prices, December 2020 witnessed some stability. The average of daily international gold prices during December 2020 were \$1,863/ounce, which is at nearly same levels as the previous month, but higher by 25.4% when compared on a YoY basis.

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December 2020			YoY growth	
Monthly average (\$/ounce)	M-o-M	Y-o-Y	FY21 (Apr-Dec)	CY20 (Jan-Dec)
1,863	-0.1%	25.4%	29.1%	27.3%

Source: CARE Ratings, Bloomberg

The upside potential of gold price movement during December 2020 was capped by some positive cues in the global economy such as approvals of Covid-19 vaccines in large economies of US and European Union, announcement of new stimulus packages to support local economies, rise in government bonds yields of US, Canada, South Korea, Australia, etc. Alongside, an improvement in various economic indicators this month elevated the risk appetite of investors, pushing global as well as Indian indices to new highs. However, due to the new coronavirus strain in UK, fresh lockdowns were imposed restricting domestic as well as international travel, which capped the downside potential of gold price movement in December 2020.



CY2020 was the among the best years for gold investors with returns of 27.3% YoY. As most global economies witnessed a rough patch due to Covid-19 induced lockdowns in 2020, investors sought relief in safe-haven assets, like gold. However, the gold price rally began in second half of CY2019, much before the ongoing global pandemic started, due to signs of a slowdown in various industries and expectations of a recession in near future.

Global gold investment demand

According to World Gold Council, gold-backed ETFs and similar products (gold ETFs) have been recording net outflows since past 2 months. As of 18th December 2020 (YTD), global net inflows stood at \$47.7 bn, which led to collective gold ETF holdings reaching 3,752 tonnes and AUM of \$ 227 bn.

The table on right depicts the countries with the highest ETF flows for YTD 18th December 2020. US held the top position with ETF flows of USD 30.7 bn, followed by UK with USD 9.1 bn. India is on the 7th position with ETF flows of USD 628 mn.

Table 2: Top 10 nations with highest ETF flows (YTD 18th December 2020)

	Country	Flows (USD mn)	Holdings (tonnes)
1	US	30,739	1,921
2	UK	9,128	748
3	France	1,639	53
4	Switzerland	1,510	377
5	China, P.R.: Mainland	1,186	66
6	Australia	839	38
7	India	606	27
8	Canada	603	78
9	Germany	510	383
10	Japan	399	22

Source: World Gold Council

Gold imports by India

Table 3: Gold imports by India

	USD mn	Tonnes	Average price per tonne (USD mn)
FY17	27,491	780	35.2
FY18	33,681	955	35.3
FY19	32,843	983	33.4
FY20	28,111	720	39.0
8M-FY21	12,298	222	55.4

Source: CMIE, CARE Ratings

India is the second largest consumer of gold, after China. FY21 has been challenging for both jewellers as well as consumers in India. The jewellery retail business was sharply hit in first half of FY21 by elevated gold prices, job loss fears, shut of retail stores and liquidity crunch, among others.

Gold imports declined 40.3% YoY to USD 12.3 bn or 222 tonnes in 8M-FY21. During this period, India imported 1/3rd of its gold (tonnes) from Switzerland. Its share fell from 48% in similar period last year. The next top nations from which India imported gold were U.A.E., Peru, Hong Kong, Ghana, South Africa and USA.

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