

Global gold prices at historical highs

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Global gold prices at historical highs today with futures crossing \$2,000/ounce

Global gold prices are on a rise since over a year now and with rising uncertainties each day in the macro-environment, it created new record-highs today by touching \$2,000/ounce in the futures market (CME October 2021 contract) for the first time. Average daily gold prices surged 5.1% in July 2020 (till date), when compared with previous month. However, the increase was much higher at 29.2% when compared with July 2019. Interestingly, in the recent 7 trading sessions from 17th to 27th July 2020, prices surged 3.5% sequentially.

On 27th July 2020, domestic gold futures closed at Rs 52,395 on the Multi Commodity Exchange (MCX) for contract expiry on 4th December 2020.

Main reasons for surge in global gold prices:

- Weakening of USD
- Geo-political tensions between China and other developed as well as developing economies
- Falling interest rate climate and expectations of continuing low levels in medium term
- Minimal signs of respite in spread of coronavirus, especially in world's largest economy of USA
- High liquidity in the system
- Expectation of further stimulus to boost growth in global economies, which could fuel inflation.

Chart 1: Daily global gold price movement (\$/ounce)

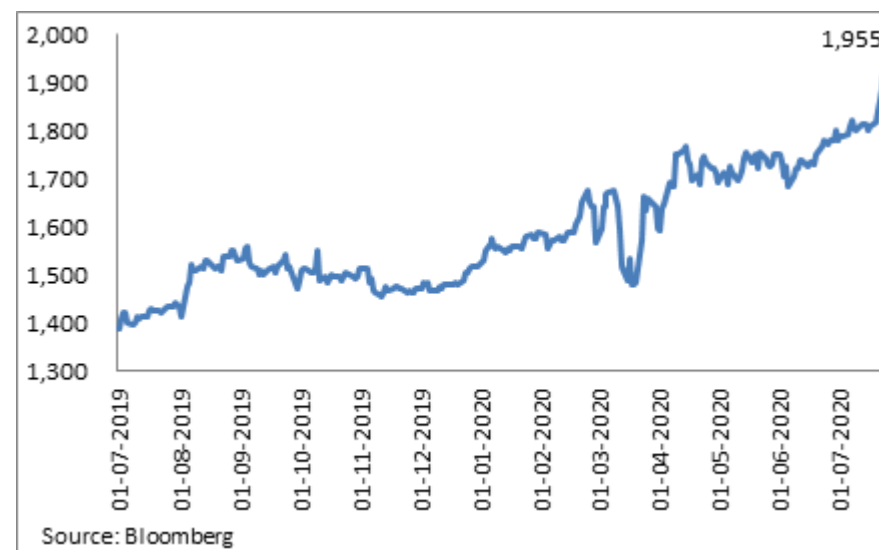
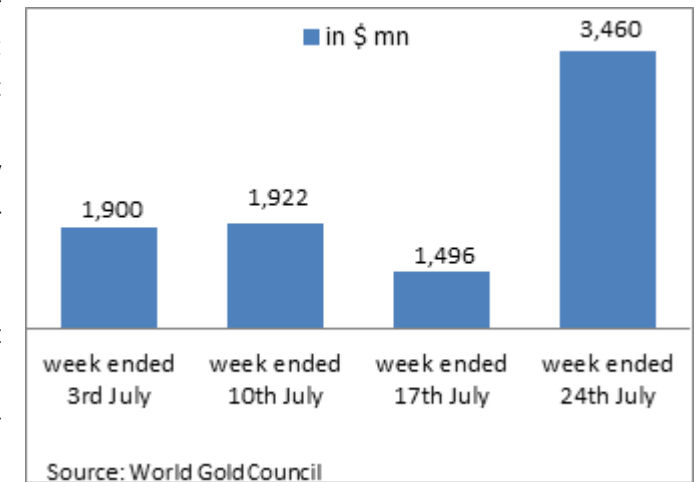


Chart 2: Global inflows in ETFs (July 2020)

All the above factors created a general sense of insecurity in minds of investors and hence gold is now the preferred asset class of investment as it has outperformed all other major asset classes. However, it is to be noted that this surge in prices is due to rise in ETFs investments and not the traditional jewellery demand from consumers. In the recent week-ended 24th July 2020, inflows in gold-backed ETFs stood at \$ 3,460 mn and with this, year-to-date inflows reached new highs of \$66,269 mn.

However, global demand for gold jewellery is on a decline. In Q1-CY2020 it stood at 325.8 mn tonnes (-39% YoY). This fall can be attributed to the decline in demand from top jewellery consuming nations such as India, China, middle-east, Americas and Europe of 41%, 65%, 9%, 5% and 15% YoY respectively.

Expected impact of surge in gold prices on India

India is the second largest consumer of gold, after China. However, in past 5 years imports of this precious metal is on a decline, from \$31,700 mn in FY16 to \$ 28,100 bn in FY20. In initial 3 months of FY21, imports fell to historical lows of \$ 688 mn, fall of 94% YoY. Though prices are inching higher each day, the fall in imported quantity will benefit India's trade balance, supported by fall in imports of other items, due to low consumer sentiments and demand.

Table 1: Gold imports by India

	USD mn	Tonnes	Average price per tonne (\$ mn)
FY16	31,696	968	32.74
FY17	27,491	780	35.24
FY18	33,681	955	35.26
FY19	32,843	983	33.41
FY20	28,111	720	39.04
FY21	688 (For April to June)	58 (For April)	-

Source: CMIE, CARE Ratings

September 2020 onwards marks the onset of festive and wedding season in India. This could temporarily upswing the gold imports in India, however, the growth may not be much, as all celebrations are expected to stay muted this year. The rising metal prices could act as a deterrent in consumer's gold purchase decisions, along with concerns of unemployment and income erosion.

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