

Gold rally intensifies in August 2020

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August 2020 marks the 8th consecutive month of a uninterrupted global gold price rally in 2020. Average of daily global gold prices in August 2020 soared 7% sequentially, while the growth was substantially higher at 31% when compared with the same month of previous year. With the global outbreak of Covid-19 and rising fears of recession, this precious metal, with its safe-haven appeal, continued to shine. Prices rose by nearly 31% in FY20 and 28% in CY20.

Table 1: Global gold price movement

Avg price (\$/ounce)			Change		YoY growth	
Aug-19	Jul-20	Aug-20	Aug-20/Jul-20	Aug-20/Aug-19	FY20 (Apr-Aug)	CY20 (Jan-Aug)
1,511	1,854	1,980	7%	31%	31%	28%

Source: CARE Ratings, Bloomberg

Rising uncertainties each day in the macro-environment created a new record in August 1st week, when gold price crossed \$2,000/ounce mark for the first time in history. It continued in the same range for the successive few days and touched nearly \$2,100, before falling below the \$2,000 mark. Interestingly, in the initial 4 trading sessions of the month, prices surged by 4.2%.

Key triggers for rise in gold prices during August 2020:

- Weakening of USD against EUR
- Growing geo-political tensions between China and other developed as well as developing economies
- Meagre signs of respite in spread of coronavirus in world’s largest economy of USA
- Announcement of several government’s economic stimulus packages to boost growth, which is expected to fuel inflation
- Surplus liquidity in the global financial system
- With valuation of stocks above their long-term average, gold appears relatively cheap, etc.

Factors that led to temporary correction in gold prices during August 2020:

- Announcement of coronavirus vaccine by Russia triggered temporary sell-off in gold
- Rise in government bonds yields of major economies such as USA, UK, Japan, Brazil, China, etc.
- Profit booking by traders, after prices crossed \$2,000 mark, etc.

Gold is simultaneously pushing up the prices for silver, as people find it as a cheaper alternative.

Global Gold demand

Gold is now among the preferred investment, as it has outperformed all other major asset classes this year. 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 week-ended 21th August 2020, inflows in gold-backed ETFs stood at \$ 1,195 mn and with this, year-to-date inflows reached new highs of \$74,092 mn.

However, global demand for gold jewellery is on a decline. Q2-CY20 global jewellery demand fell by 53% to record-low of 251.5 tonnes. This can be attributed to the market lockdowns in top jewellery consuming nations such as India, China, middle east, Americas and Europe of 74%, 36%, 69%, 33% and 42% YoY respectively.

In India, sovereign gold bonds (SGB) are recently gaining traction, as they are generally available at an issue price which is better than the price of physical gold. Investors look at it as an effective way to invest in gold, if they do not wish to purchase the metal in its physical form and hence need not worry about its storage, as such SGBs are in a Demat form.

Global gold reserves

Globally, 35,018 tonnes of gold is held as reserves and of this, 10,773 tonnes are in the Euro area. As per the World Gold Council, US has the largest official gold holding with 8,134 tonnes, while India is on the 10th position with 658 tonnes of gold. Other countries having greater gold holdings than India are Germany, Italy, France, Russian Federation, China, Switzerland and Japan.

The table on right also shows that the largest gold reserve holders in the world have gold as their main foreign reserves – 79% for US, 75.6% for Germany, Italy with 71.3%. As against India has only 7.5% per cent gold held as total foreign reserves.

YTD as of	(\$ mn)
24th August 2018	17,952
23 rd August 2019	31,219
21 st August 2020	74,092

Source: World Gold Council

Table 3: Top 10 nations with highest official gold holdings, August 2020

	Country	Tonnes	% of reserves
1	United States	8,134	79.0%
2	Germany	3,364	75.6%
3	IMF	2,814	
4	Italy	2,452	71.3%
5	France	2,436	65.5%
6	Russian Federation	2,300	23.0%
7	China, P.R.: Mainland	1,948	3.4%
8	Switzerland	1,040	6.5%
9	Japan	765	3.2%
10	India	658	7.5%

Sourced by World Gold Council from IMF's International Financial Statistics (IFS).

Note: Includes latest available data for countries

Gold imports by India

	\$ mn	Tonnes	Avg price per tonne (\$ mn)
FY16	31,696	968	32.7
FY17	27,491	780	35.2
FY18	33,681	955	35.3
FY19	32,843	983	33.4
FY20	28,111	720	39
Q1-FY21	688	14	49.1

Source: CMIE, CARE Ratings

purchase decisions.

India is the second largest consumer of gold. However, in past 5 years imports of this precious metal is on a decline, from ~\$31.7 bn in FY16 to \$28.1 bn in FY20. In initial 3 months of FY21, imports fell to historical lows of \$ 688 mn, fall of 94% YoY.

Gold imports in the month of July 2020 witnessed an upswing to reach \$1,784 mn and clocked a growth of 4.2% YoY. Most cities in India have now unlocked and August 2020 marks the onset of festive and wedding season in India, which could temporarily increase gold demand for Indians. However, the growth may not be consistent, as all celebrations are expected to stay muted this year and the rising metal prices could act as a deterrent in consumer's gold

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