Has the gold rally ended?

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The month of September 2020 brought a halt to the incessant gold rally since April 2020, as average of daily global gold prices fell in by 2.5% m-o-m. However, when compared with the same month of the previous year, the prices were still substantially higher by 27.2%.

The global outbreak of Covid-19 and rising fears of recession has made this metal even more attractive this year and due to its safe-haven appeal. Prices soared 30.5% in 6M-FY21 and 27.7% in 9M-CY20 on a YoY basis.

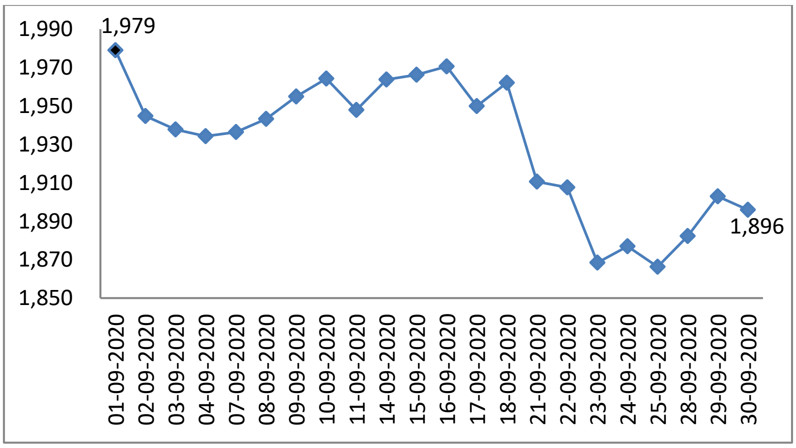
Table 1: Global gold price movement

September 2020			YoY growth	
Monthly average ($/ounce)	M-o-M	Y-o-Y	FY21 (Apr-Sept)	CY20 (Jan-Sept)
1,930	-2.5%	27.2%	30.5%	27.7%

Source: CARE Ratings, Bloomberg

Prices during September remained fairly volatile. Within the initial four trading sessions, prices dropped 2.3%, while in the next four days rose by 1.4%. In the following four days, they again rose by 1.2%. However, between 18th to 23rd September prices dropped sharply by 4.8%. For the first time in past 2 months, prices went below $1,900 on 23rd September to reach $1,868 and since then, remained below $1,900 except on 29th September when it reached $1,903. The month closed at $1,896/ounce.

Chart 1: Global gold price movement in September 2020 ($/ounce)



Source: CARE Ratings, Bloomberg

This correction in prices brings fresh opportunity for investors to buy gold, who could not make purchases when prices were escalating or temporarily fell for a short period. Though the fundamentals supporting the gold rally has not changed much, the following factors can be attributed to decline in prices during September 2020:

- Strengthening of USD against EUR
- Rise in government bonds yields of large economies such as US, South Korea, Brazil, Australia, China and India
- Profit booking by traders, after prices crossed the psychological mark of $2,000/ounce in August 2020
- Delay in announcement of fresh stimulus in US
- Increase in risk appetite of investors with improvement in economic data, etc.

All the above factors along with the US Federal Reserve's decision to not push interest rates further into the negative category and rising fears of another global wave of Covid-19 with some large cities already in a partial lockdown, led to sell offs in equities and gold during the month. This helped investors move back to the haven of the USD ahead of the US elections.

Gold investment demand

Table 2: Top 10 nations with highest official gold holdings, September 2020

	Country	Tonnes	% of foreign reserves
1	United States	8,135	79.9%
2	Germany	3,362	77.1%
3	IMF	2,814	
4	Italy	2,452	72.9%
5	France	2,436	67.8%
6	Russian Federation	2,299	24.5%
7	China, P.R.: Mainland	1,948	3.7%
8	Switzerland	1,040	6.8%
9	Japan	765	3.5%
10	India	664	7.8%

Source: World Gold Council
Note: Includes latest available data for countries

According to World Gold Council, inflows in gold backed ETFs are on a consistent rise this year. As on 25th September 2020 (YTD), global net inflows stood at 985 tonnes, which led to collective gold ETF holdings reaching all-time highs of 3,872 tonnes and AUM of US$ 232 bn.

The table on left depicts the country wise data for official gold holdings. As per data from World Gold Council for September 2020, US has the largest official gold holding with 8,135 tonnes, while India is on the 10th position with 664 tonnes. Other countries having greater gold holdings than India are Germany, Italy, France, Russian Federation, China, Switzerland and Japan. The table also shows that the largest gold reserve holders in the world have gold as their main foreign reserves – 79.9% for US, 77.1% for Germany, Italy with 72.9%, etc. As against India has just 7.8% gold held as total foreign reserves.

India is the second largest consumer of gold. However, since the past three years imports of this precious metal is on a decline, from $33.7 bn in FY18 to $28.1 bn in FY20. In initial 4 months of FY21, imports fell to lows of $2.5 bn, fall of 81% YoY.

Gold imports in the month of August 2020 witnessed an upswing to reach $3.7 bn and clocked a growth of 171% YoY. Most cities in India have already unlocked and in August 2020, the festive season began, which increased gold demand. However, this growth may not be consistent, as all celebrations of auspicious occasions, including weddings are expected to stay muted this year.

Table 3: Gold imports by India

	$ mn	Tonnes	Avg price per tonne ($ mn)
FY17	27,491	780	35.2
FY18	33,681	955	35.3
FY19	32,843	983	33.4
FY20	28,111	720	39
4M-FY21	2,472	47	52.6

Source: CMIE, CARE Ratings

Concluding remarks:

- The correction in global gold prices is mainly due to the rise in bonds yields, appeal for USD as a safe haven ahead of US elections and sell off across various asset classes mainly in equities.
- The fundamentals supporting the rally of gold prices have not changed much and there is a rising fear of another global wave of covid-19, which shall support high prices.

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