

# Update on gold for October 2020

Contact:

**Madan Sabnavis**  
 Chief Economist  
 madan.sabnavis@careratings.com  
 +91-22-6837 4433

**Vahishta M. Unwalla**  
 Research Analyst  
 vahishta.unwalla@careratings.com  
 +91-22-6837 4408

**Mradul Mishra (Media Contact)**  
 mradul.mishra@careratings.com  
 +91-22-6754 3573

October 2020 was the 2<sup>nd</sup> consecutive month that witnessed a halt in the gold rally. The average of daily gold prices corrected marginally by 1.2% m-o-m. However, when compared with the same month of the previous year, the prices were substantially higher by 26.9%. The global outbreak of Covid-19 and rising fears of recession increased interest in the metal this year and due to its safe-haven appeal, prices soared sharply by 29.9% in 7M-FY21 and 27.5% in 10M-CY20 on a YoY basis.

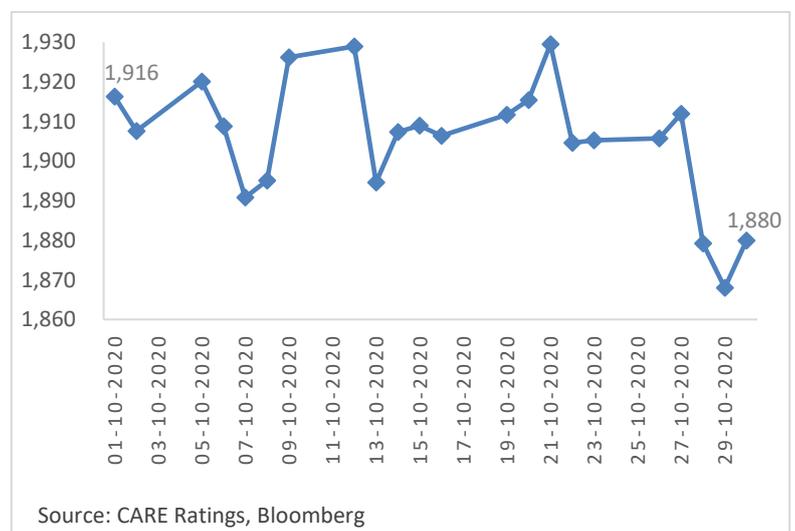
**Table 1: Global gold price movement**

October 2020			YoY growth	
Monthly average (\$/ounce)	M-o-M	Y-o-Y	FY21 (Apr-Oct)	CY20 (Jan-Oct)
1,906	-1.2%	26.9%	29.9%	27.5%

Source: CARE Ratings, Bloomberg

In the initial 5 trading sessions, prices dropped 1.3%, while in the following 10 sessions rose by 1.8% to peak at \$1,930/ounce (the highest level in October). In the successive 7 sessions, they fell by 1.3% and on the following day which was the last trading day of the month, prices rose 0.6% to end at \$1,880/ounce. Out of total 22 trading days, gold prices remained below \$1,900 for 6 days.

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



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As unlocking in various parts of the world continued during the month, business activities improved and hence various economic indicators showed positive trends. However, in the last week of October 2020, new covid-19 cases rose sharply and hence fresh lockdowns had to be imposed in various cities of the European continent. Simultaneously, US still continues to witness large number of new Covid-19 cases and fears a second wave. Other factors that influenced price movement of this precious metal during the month were:

- Strengthening of USD against EUR
- Rise in government bonds yields of large economies such as US, Canada, UK, Japan, China and Brazil.
- Profit booking by traders, after prices crossed the psychological mark of \$2,000/ounce in August 2020
- Falling expectation of any announcement of fresh stimulus in developed economies like US
- Increase in risk appetite of investors with improvement in economic data
- Uncertainty around US presidential elections
- US Federal Reserve's decision to not push interest rates further into the negative category
- Rising fears of imposing fresh lockdowns which may lead to fall in economic activity, etc.

### Global gold investment demand

According to World Gold Council, inflows in gold backed ETFs are on a consistent rise this year. As on 23rd October 2020 (YTD), global net inflows stood at \$57 bn, which led to collective gold ETF holdings reaching all-time highs of 3,904 tonnes and AUM of \$ 239 bn.

The table on right depicts the country wise data for official gold holdings. As per data from World Gold Council for November 2020, US has the largest official gold holding with 8,134 tonnes, while India is among the top 10 nations with 668 tonnes. Other countries having greater gold holdings than India are Germany, Italy, France, Russian Federation, China, Switzerland and Japan. However, India has higher gold as a proportion of its total foreign reserves when compared with China, Switzerland and Japan.

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

	Country	Tonnes	% of foreign reserves
1	United States	8,134	79.4%
2	Germany	3,362	76.6%
3	IMF	2,814	
4	Italy	2,452	71.1%
5	France	2,436	66.7%
6	Russian Federation	2,299	23.9%
7	China, P.R.: Mainland	1,948	3.6%
8	Switzerland	1,040	6.2%
9	Japan	765	3.3%
10	India	668	7.4%

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

### Gold imports by India

India is the second largest consumer of gold, after China, 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 5 months of FY21, imports fell to lows of \$6.2 bn, fall of 57.5% YoY. Gold imports in the month of September 2020 declined 52.3% YoY to \$601 mn.

The Q3 of every FY witnesses a spike in gold demand due to large number of festivities and the wedding season. However, most celebrations this year are muted, which is influencing gold imports in the country.

**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
5M-FY21	6,175	78	79.2

Source: CMIE, CARE Ratings

**Concluding remarks:**

- The correction in global gold prices in October 2020 was mainly affected by rise in bonds yields in major economies, appreciation of USD ahead of the US elections and sell off across various asset classes mainly in equities.
- The fundamentals supporting the rally of gold prices have not changed much. In fact, with rising new cases of Covid-19, fresh lockdowns are being imposed, which creates a risk of 2<sup>nd</sup> wave of infections globally have added to the sentiment. Such factors will keep gold investment demand high in the near future.
- Gold is a unique metal which comforts in times of turbulence in equity markets, acts as a hedge towards inflation and an attractive asset class during low interest rates.
- The outcome of the US elections will have its own impact on gold prices as it will determine monetary and fiscal policies for future, direction of trade wars, changes in taxation structures, all of which shall impact various stock indices globally and create/decelerate gold demand.

**CARE Ratings Limited**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691  
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457  
E-mail: [care@careratings.com](mailto:care@careratings.com) | Website: [www.careratings.com](http://www.careratings.com)

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