

# The yellow metal is losing its shine!

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Is gold losing its attractiveness?

The yellow metal, used in industry especially for electronics, jewellery and dentistry, has been serving mankind as a store of value.

Gold has always been a hedge against inflation. Also in uncertain times, especially when there is political and economic turmoil, it is treasured most —as an insurance policy against all upheavals.

But gold is unlike other assets: it brings no income and certainly earns no interest as in any financial assets. Above all, it costs money to store it!

## The gold crazy country

If you wonder why gold is losing its attractiveness, look at India's import figures. India is one of the largest importers of gold.

Of course, the craziest country for gold jewellery is importing less and less over the last four years. Gold imports in November 2014 were US\$ 5.57 billion. In November 2015 it is only US\$3.53 billion.

India's gold import has fallen by 36 percent.

During the last few years, gold had a period of uncertainty. The reason was uncertainty in China's commodity driven growth and of course, the lingering doubts about the US central bank policy regarding its own interest rate hike. Pending the rise in US benchmark interest by 25 basis points finally in mid December, the US dollar has been climbing up steadily in terms of other currencies.

Gold which touched \$1,300-mark an ounce in the beginning of the year fell to a five-year low of \$1,046 as the US Federal Reserve ended its cheap money policy, the range of zero to 0.25 percent being raised from 0.25 percent to 0.50 percent.

It looks uncertainties would continue in the New Year too!

### **Continuing uncertainties**

The American President election and the impending referendum in the United Kingdom on future of the membership in European Union and of course, the economic downturn in the world's second largest economy, China and the current turmoil in commodity prices will all affect gold's future price level.

India's gold demand is influenced not only because of the shifts in demand by investors looking for other assets due to fall in world global prices, but also by government policies. The recent Indian government efforts to monetize the holdings which are lying idle with the households and institutions including temples, together with the usual measures to curb gold imports for most part of the year are also responsible. In early 2015, gold price was Rs.26,700 per ten gram. Gold is now for the third straight year on a downward path, having remained in the most favoured asset class for a decade (2003-13) in India.

In December it fell to Rs.25,500-level.

Remember, gold ruled high in 2013. It was lifetime high at Rs.33,790.

Now its price is falling.

### **Where will it go from here?**

What will happen in 2016?

Generally, it is held that gold falls in price when interest rates rise and as a consequence returns on financial assets rise. The expectations were set in motion, when the US Federal Reserve decided to hike its benchmark interest rate, though by a very small margin ending a long spell of near zero interest rate.

Higher rate increase has also led to a belief that the US central bank would raise the rate incrementally in the next three quarters, indicating the economy is on a recovery path on a more sustained basis and that the central bank is keen to prevent any premature heating up of the economy. These expectations have also led to reversal of capital outflows to the US which have been strengthening the US dollar.

So when the dollar is becoming stronger, the yellow metal loses its shine.

After all gold is a hedge against depreciating currencies. The US dollar is now strong.

## **What does market expect?**

Predictions are gold will fall below US\$1,000 an ounce. Another interest rate increase in the first quarter of the year would push up the US dollar further. Since oil price would stay around US\$50, inflation would still continue to be low, below the targeted level of 2 percent in US and UK and Europe.

So price of gold, the hedge against inflation dollar would continue to be low.

However, if the US central bank does not increase its rate in the event of poor economic prospects in the rest of the world and against the prospect of weak inflation, the US dollar would cease to surge. That is the chance for gold price to pick up.

Credit Suisse says gold price would then rise above US \$1,100. So stay tuned. Or if you have money, buy gold but be prepared to spend money to store it!