CARMINE
COMMUNICATIONS

Client: IGPC	Date: 8th July, 20
Online: Etv Bharat	Link: https://www.etvbharat.com/english/national/business/economy/hiring-activity-improves-33-percent-in-june-report/na20200708132017171

ETV BHARAT ENGLISH

'There is still steam left in gold rally'

Published on :4 hours ago| Updated on :3 hours ago

Gold prices in India have already jumped nearly 17% within the last four months after the Covid-19 pandemic hit the world, but analysts worldwide expect further appreciation.

Hyderabad: Gold prices are infamously known to be in love with crisis. Historic data suggests that whenever the global economy has gone through a rough patch and whenever equity markets have been jittery, like during the 2008 financial crisis, the yellow metal prices have shown sharp upticks, showing off its "safe-haven" credentials.

It is, hence, not surprising to see gold prices in India rallying nearly 17% within the last four months after the Covid-19 pandemic sent economies worldwide into the worst recession seen since the 2008 crisis, triggering stimulus measures and interest rate cuts by central banks globally.

> "Currency debasement is the main reason behind the recent rally in gold prices," said Sudheesh Nambiath, Head at the India Gold Policy Centre, IIM Ahmedabad.
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> "All the co-relations (among stock markets, currency and gold) have gone way haywire as gold is rising even as global stock markets are recovering and US dollar is weakening."

Currency debasement, or devaluation, has been usually synonymous with inflation, where the amount of money in circulation relative to economic activity increases.

Year-to-date, gold prices in India have advanced nearly 24%, while jumping a whopping 40% if the last one year is taken into account. On MCX, gold futures had hit a record high of Rs 48,589 per 10 gm on 1 July, though it saw some profit-booking after that. Internationally, spot gold had also hit $1,788.96 per ounce last week, the highest level since October 2012.

Last month, Goldman Sachs updated its 12-month gold price forecasts to $2,000 per ounce from $1,800 and maintained its long December 2020 gold trading recommendation. In April, Bank of America Securities had raised its 2021 target price on gold sharply to $3,000 from $2,000 earlier. In India, too, most of the domestic brokerage and research houses expect the strong bullish trend in gold prices to continue this year.

> "There might be a small correction in coming weeks but overall trend does remain bullish for gold prices and we see international gold hitting the $2,050 per dollar in a year or two," said Nambiath. "However, as the US dollar weakens, and rupee gets stronger, the rise in gold prices in rupee terms may not be that sharp," he cautioned.

No wonder, investors are hopping on gold as their preferred asset class of late. Though physical demand for gold has taken a big hit owing to high prices and lockdown restrictions, investment demand for the precious commodity remained unabated. Gold exchange-traded funds (ETFs) saw net inflows of Rs 815 crore in May compared with net inflows of Rs 731 crore in April.

Globally, too, gold ETFs have added 298 tonnes of gold, valued nearly $23 billion, into their portfolio in the first quarter of 2020, the highest quarterly inflow in absolute terms since 2016, according to a report in the World Gold Council.

> Nambiath said the fall in physical demand for gold in countries like China and India is unlikely to derail the gold price rally. "The rise in ETF demand globally is actually fuelling the rally in gold, negating the effect of the fall in demand for physical gold completely," he said.