Demand & Supply Trends of Sparkling Metal

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Abstract

As gold is an essential part of savings of a large number of investors, this has raised apprehensions whether any correction in gold prices will have destabilizing implications on the financial markets. In this backdrop, the paper makes an attempt to analyze the implications of the correction in gold prices on financial stability in India. The domestic Indian gold market is estimated to be more than US$ 20 billion and is expected to rise significantly in the coming years. The Indian gems and jewellery market is set to cross US$ 30.32 billion by 2014, on the back of improving lifestyle and availability of skilled labour, as per a report **'Indian Gems And Jewellery Market – Future Prospects To 2011', by RNCOS.** The paper examine that due to the non availability of benchmark price, the gold prices in India vary very much from region to region. The festive and the wedding season in the country witnesses a heavy demand for gold. Despite the global economic recession, the gold consumption in the country during these times had not abetted. Based on empirical evidences, the paper also concludes that implication of moving average chart, price of gold having an uptrend and predicts the future trends of gold. This paper is another attempt to provide thoughts for some questions such as what are the expected returns form gold?, is demand supply of gold make any impact of gold price and its exponential growth?

Key Words :- RNOCS , Carats, Gold price Fixing, Gold Coinage etc.

Introduction

Gold having a unique status in economic world a store of wealth, and for a long time, the measure of economic power of nations and the cornerstone of international monetary regimes. In recent years, the world witnessed an aggressive growth in gold price. The role of gold in investment has drawn more attention since this transformational economic crisis began to unfold in 2008. This paper is another attempt to disentangle the price movement of gold after the Bretton-Woods system, the last international monetary regime based on gold. This paper is another attempt to disentangle the price movement of gold after the Bretton-Woods system, the last international monetary regime based on gold. To what extents can we understand the price movement of gold? Can we find support for some popular opinions about gold on finance media? For instance: is gold a safe haven, a negative-beta asset, or an inflation hedge? How should we think about gold: a commodity or a currency? This paper provides some thoughts on these questions.

Objectives of the Study

- To study about the price movement of gold.
- To predict the future trends of gold and its price.
- To explore the impact of demand and supply on gold price

Pricing of Gold & Standards

Gold's extensive appeal and functionality, including its characteristics as investments tool, are underpinned by the supply and demand dynamics of the gold market. From an economic point of view, travel of the price of gold is both appealing and significant. It is often a debatable matter that investment in gold is historically linked with uncertainties about mounting of price. In times of uncertainty, investors turn to Gold as a hedge against unpredicted disasters, since gold is one of the few nest egg that is not at the same time an assets and someone else's liability. Like other precious metals, gold is measured by troy and weight and by grams. When it is alloyed with other metals, the term carat or karat is used to indicate the amount of gold currently, with 24 carats being untainted gold and lower ratings proportionally less. The price of gold determined through trading in the gold and derivatives market, but a procedure known as the Gold Fixing was in London. Originating in September 1919, provide a price when US markets are open. traditionally, gold coinage was generally used as a currency; when paper money was introduced, it characteristically was a receipt exchangeable for gold coin or bullion. In an economic system known as the gold standard, a certain weight of gold was given the name of a unit of currency.

The gold standard, under which gold coins and fiat money could be converted at banks freely at a pre-set official rate and nations settled balance differences in gold, has intrinsic deflationary pressure: the inelastic supply of gold always made the money supply insufficient in a growing economy with rising productivity (insufficient liquidity). To keep up with demand for money, monetary authorities developed the “gold-exchange standard”: bank notes of major economies could also be treated as reserve assets. But the faith in the convertibility of foreign reserves was always fragile. After the Great Depression and WWII, a new international monetary system, the Bretton-Woods system was founded. The implemented Bretton-Woods system[1] was a fix-exchange-rate gold-dollar standard regime. Under it, the U.S. monetary authority was immediately put into a dilemma: with the U.S. being the solede-facto reserve-currency country, whichever policy the Fed implemented—expansionary or tight money, it would lead to either the erosion of confidence on the dollar or a deflationary pressure worldwide. Also, domestic policy goals, such as maintaining economic growth and low employment, and the responsibility of reserve-currency country to stabilize the value of the dollar were often conflicting. These problems worsened in 1960s with the increasing expenditure on social welfare programs and the war in Vietnam. Pressure from foreign governments and speculators on financial markets and U.S. government pushed Bretton-Woods System to an end in 1973. Since 1973, gold could be publicly traded with little government intervention. It is no longer directly linked to any nation’s monetary policy or the value to any currency. The central banks continued to hold considerable amount of gold reserves for strategic or confidence reasons.

Gold Demand

Gold has both private demands and government demands. As previously discussed, in the gold-standard era, government demand is monetary gold. In post Bretton-Woods era, central banks still hold great amount of gold reserves as strategic assets (“war chest”) but the government demands are not that active and influential as they were in gold-standard years. Private demands can be further divided using different criteria. One division is investment (ETFs, bullions, bars etc.) and non-investment (jewelry, industrial and dental) demands. Another division is depletive uses (manufacturing and dentistry) and non-depletive uses (bullions, jewelry, ornamentation and hoarding etc.). As per estimation that between half and two-thirds of the annual production went to private uses. One picture of recent years’ gold demand breakup came from 2007. In that year, the gold reserves of central banks and international institutions (IMF, for instance, is a large holder of gold reserves) decreased by 504.8 tons, which meant a negative demand or a net supply. All newly mined gold went to private sector: More than two thirds of it (2398.7 out of 3558.3 tons) went to jewelry, the industrial and dental demands used up approximately 13% of the production. The remaining fed private investment needs. Geographically, India consumed 773.6 tons of gold, about 20% of the world’s production; greater China region consumed 363.3 tons, ranking the second. In terms of “stock”, a rough estimate is that the total above-ground stocks of gold are about 161,000 tons[7] now, 51% of which are in terms of jewelry. Official sectors hold nearly 30000 tons (18%), (private) investment 16%, and industrial 12%.

Gold Supply

Gold supply comes from mining, sales of gold reserves, and “old gold scrap” (the recycling of gold). The gold mining went hand in hand with the geographical discovery of the earth by mankind. During the Gold Rushes years (from 1850 to 1900), about twice as much gold was mined as in previous history. The annual production of gold continued to increase dramatically in the twentieth century: from less than 500 tons per year in the 1900s all the way to more than 2000 tons per year in late 1980s. In the last fifteen years though, the annual mining production fluctuated around 2500 tons, which revealed the increasing difficulty of finding new deposits and mining and extraction in non-rich sites. Most of the gold left to be mined exists as traces buried in marginal areas of the globe, for instance, in the rain forests of Indonesia, the Andes and on the Tibetan plateau of China. Gold mining has been bringing environmental disasters in forms of mercury linkage, deforestation and waste rocks among others to Africa, Latin America and East and Southeast Asia. This has drawn more and more attention worldwide.

Supply and Demand Analysis of Gold (From 2007-2013)

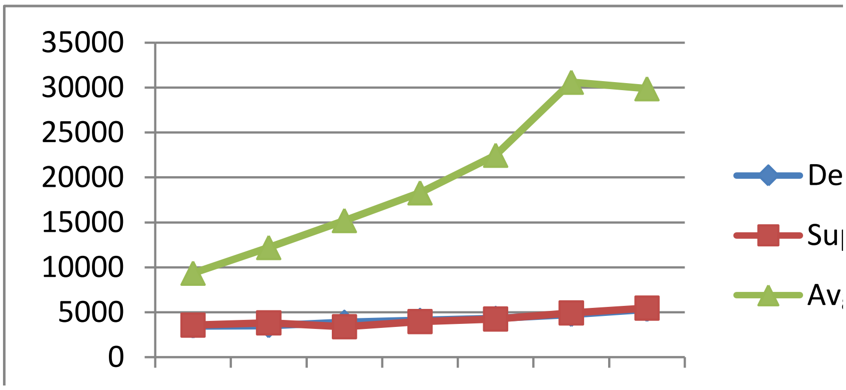
Regardless of whether the economic recovery gather momentum or tumbles, we believe that western investment demand will remain well underpinned. If the global economy falters, then western investors will continue to look towards gold for its diversification and portfolio insurance properties. Conversely, if the economic recovery become more firmly entrenched, then inflation concerns are likely to continue to gain prominence. However, the outlook for non-western demand remains price dependent. While industrial and jewellery demand are expected to strengthen in an environment where economic conditions are improving, this recovery is likely to be relatively gradual. Conditions on the supply side are also generally price supportive. While the level of de-hedging activity that prevailed in the second half of 2009 & 2010 are unlikely to continue into 2011, the official sector is likely to be continued source of support for the gold price. (Tale:1)

Table 1: Supply and Demand Figures For Gold (From 2007-2013)

Year / Detail	2007	2008	2009	2010	2011	2012	2013
Supply (in metric tons)	3471	3513	3890	4100	4325	4764	5329
Demand(in metric tons)	3552	3806	3386	3950	4248	4939	5465
Avg. Price (in Rs.)P.G.	9352	12210	15216	18301	22490	30624	29900

Source: World Gold Council

Figure : 1



Price Elasticity Analysis(Table: 2)

Table : 2 Change in Demand and Supply in Percentage

Change in Percentage	**Value**
Change in Supply %	0.19
Change in Demand %	0.42
Change is Price %	0.79

1. **Price Elasticity of Demand = Change in % in Demand / Change in % in Price**
   PeOD = 0.053

2. **Price Elasticity of supply = Change in % in supply/ Change in % in Price**
   PeOD = 0.024

Price elasticity of supply is less than 1. So, supply is also inelastic with price.

So, Gold price is not affected by its supply and demand (i.e.) whatever may be the demand and whatever may be the supply, gold price is not affected by that.

Gold Price Movements & Return Analysis

We chose the perspective of testing some commonly-held or heatedly-debated opinions about the price of gold as a means to analyze its price movement. Several common-wisdom “theories” are considered: Firstly, people claim that as gold remains the eternal symbol of wealth in people’s minds; people will switch their investments to gold in ages of turbulence. Gold is the “safe haven” on the financial market. To test this hypothesis, we look into various “fear” measures: volatility in the price movements & consumer expectations of the future check the correlations of these. A somewhat related hypothesis—the price elasticity of demand and supply affect the gold price.

Secondly, people marketing gold investment products will always describe gold as an "inflation hedge". A straightforward analysis is provided on the real gold price (level), the return of gold and expected and actual inflation to test this claim. (Table:3)

Table 3 : Quarterly return of gold price

Month & Year	Gold Returns in Quarterly Basis (in %)
Jan-Mar 07	3.3
Apr-Jun 07	-5
Jul-Sep 07	7
Oct-Dec 07	9.1
Jan-Mar 08	19.9
Apr-Jun 08	-1.2
Jul-Sep 08	-0.8
Oct-Dec 08	6.4
Jan-Mar 09	16.8
Apr-Jun 09	-3.6
Jul-Sep 09	7.1
Oct-Dec 09	8
Jan-Mar 10	-3.4
Apr-Jun 0	12.5
Jul-Sep 10	2
Oct-Dec 10	6
Jan-Mar 11	7.6
Apr-Jun 11	6.4
Jul-Sep 11	9.8
Oct-Dec 11	14.7
Jan-Mar 12	6.9
Apr-Jun 12	-0.25
Jul-Sep 12	6.4
Oct-Dec 12	9.4
Jan-Mar 13	10.14
Apr-Jun 13	9.87
Jul-Sep 13	6.78
Oct-Dec 13	5.23

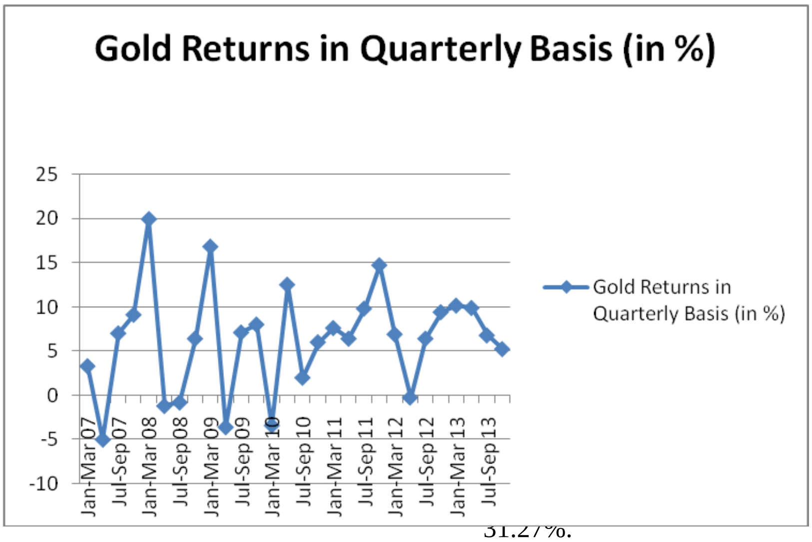
Source : www.fast**market**s.com/.../**gold-analysis**-forecast-report

Table 4 : Year Wise Price Details of Gold From 2007-2010

SunOS.	Years	Average Yearly Gold Price
1	**2007**	**9352**
2	**2008**	**12210**
3	**2009**	**15216**
4	**2010**	**18301**
5	**2011**	**22490**
6	**2012**	**30624**
7	**2013**	**29900**

Source : www.fast**market**s.com/.../**gold-analysis**-forecast-report

Figure : 2



Moving Average Analysis For Gold Price

A simple, or arithmetic, moving average that is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods. Short-term averages respond quickly the changes in the price of the underlying, while long-term averages are slow to react. Short-term averages act as levels of support when the price experience a pullback level become stronger and more significant as the number of time periods used in the calculations increases. Here, we use quarterly moving average and 6 quarter moving average to find out the bullish/Bearish trend in Gold. As per quarter an Six quarter MA Analysis, the Average price trend line shows the uptrend of gold price.

Compounded Annual Growth Rate of Gold Price

The years-over-year growth rate of an investment over a specified period of time has been calculated. By taking nth root of the total percentage growth rate, where n is the number of years in the period being considered. This can be written as follows :

$$CAGR = \{Ending\ Value / Beginning\ Value\}^{\{1/\#\ of\ years\}} - 1$$

So, by applying the compounded annual growth rate formula, we can get the result as 21.62%. over the course of 6 periods, the investment grew from Rs. 9352 to Rs. 29900, its compound annual growth rate, or its overall return, is 31.27%.

What will be the trend for the gold price in 2014 and beyond?

Gold has traditionally been seen as a very conservative investment due to its relative scarcity, but it trends to be a very accurate reflector of short term fear about the economy in general. And based on the above said analysis, it is implied the gold is going to have bull trend in the future. In economic data, very often, we come across situations in which in the beginning, the growth is very slow, but as the product is accepted, the demand increases by a greater amount each year and finally, as the market becomes more and more developed, the curve continues to grow more and more, approaching an upper limit. So people can go for gold investment to earn a good return. A majority of gold investors views gold more as an insurance or store of value than as a means of speculation. These investors therefore regularly take a longer-term view on gold as an investment. And the 10-year upwards trend of the gold price continue in 2014 and beyond.

International gold prices may continue to correct in 2014. "We remain bearish on gold because it will underperform during tighter liquidity and rising interest rates. It may go down further to the $1,050-1 ,080 range before March 2014," says Kishore Narne, associate director, Motilal Oswal Commodities Broker. Domestic gold prices have been cushioned from the global crash but this could change in the new year as the government rolls back some of the harsh measures introduced in 2014. A reduction in the import duty and other restrictions can bring down the domestic gold prices. "Domestic gold also looks bearish; the only risk is the currency," says Narne. Investors will have to monitor global developments and government policy measures more closely in 2014. Financial advisers have long advocated the benefits of buying paper gold. This conventional wisdom has been turned on its head by the differential in the market price of gold ETFs and their

NAVs. It's better to stay away than get caught on the wrong foot. Getting gold from abroad for a jeweler may seem a great way to earn easy money, but there are several glitches in this arrangement. The tax department may want to know where you got the money to buy the gold. Since this involves profit, you would also have to pay tax on the gains. However, it makes sense for NRIs to bring in small quantities of gold.

The predictions with regard to the gold price in 2014 and the following years mirror the uncertainties in the global markets. An interesting fact about gold is that it often performs well in scenarios of deflation (for instance driven by global debt reductions) but also in scenarios with higher than usual inflation rates (which could potentially occur as public debt level increases further). Gold therefore tends to perform positively in times of economic uncertainties as well as in acute crises. Unfortunately, the global financial problems are not yet sorted out. Some credible commentators expect several more years of uncertainty and painful deleveraging, which could end only when we are approaching the next decade. Thus, in the foreseeable future a moderate allocation to gold will remain the imperative for many investors and could result in a positive trend of the gold price 2014 and beyond. Portfolio diversification, i.e. the allocation of funds to different asset classes and investments, should remain an imperative for safety-orientated investors over the coming years.

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