

Reasons behind the recent spike in gold prices in India

Prelims - Current events of national and international importance.

Mains (GS II) - Economic Development | Issues relating to planning, mobilization, of resources, growth.

Why in News?

In the domestic market, gold breached the psychological level of Rs 1 lakh per 10 grams, while gold prices hit a fresh record high of 3,500 dollars per ounce in the international market recently.

- **Tariffs imposed by U.S.** - Experts attribute the global economic uncertainty caused by the tariffs imposed by US as the primary reason behind the recent spike in gold prices.
- US investors are also importing large quantities of gold from the international markets China, London, and other countries like to hedge against a potentially higher tariff regime.
- **Fluctuations in Major currencies** - Recent fluctuations in the values of major currencies, including the ***US dollar and the euro***, have prompted businesses to invest in gold to hedge their currency assets.
- **Surge in demand** - The ongoing global tariff and trade war has led to a surge in demand for gold by investors, fund managers, and central banks alike.
- There is also a surge in demand for gold through ***Gold Exchange-Traded Funds, or ETFs***, as these funds are attracting higher investments.
- **Domestic reason** - Gold prices have also risen in the domestic market due to the ongoing marriage season, which typically leads to a spurt in gold demand.

India is the 2nd-largest gold market in the world, after China. According to a World Gold Council report, the value of total gold demand in India increased by 31% in 2024, compared to 2023.

Quick facts

- **Gold Exchange Traded Funds (ETFs)** - These are investment vehicles that allow individuals to gain exposure to gold without needing to physically store or handle the precious metal.
- They are traded on stock exchanges like any other share, and their value fluctuates based on the market price of gold.
- Each unit of a gold ETF typically represents a specific amount of gold, often one gram.
- **Exchange-Traded Fund** - It is a type of investment fund that can be bought and sold on a stock exchange throughout the day, like a stock.
- ETFs hold a basket of underlying assets, such as stocks or bonds, and are designed to track a specific market index, sector, or commodity.
- They offer a diversified investment in a single trade and are often more cost-effective than buying individual securities.

Reference

[Hindu Business line | Uncertainty is driving gold prices](#)

