Rising Gold Price

What is the issue?

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- The price of gold in the Indian market reached its highest-ever level, hitting the Rs.33,800 mark in Mumbai.
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- The current increase in gold prices reflects the larger monetary policy and currency scenarios across the globe.
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What are the recent developments?

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- The gold price rise is driven by increasing demand from buyers and lagging supply in the global market.
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- Also, not just rupee, but many other major emerging market currencies are witnessing a fall in value against gold.
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- In fact, many emerging market currencies have already hit, or are quite close to hitting, historic lows against gold.
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- Against the U.S. dollar, however, gold is still priced well below its all-time high of over $1,500 that was reached in 2012.
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- This is despite gold showing some appreciation against dollar in the last few months.
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- The increase in gold price worldwide should be seen against the backdrop of rising uncertainties that threaten to derail the global economy.
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How is the global economy at present?

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- Western central banks have been tightening their monetary policy stances for a while now.
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- This is leading to increasing fears that this could put an end to the decade-long economic recovery since the 2008 Global Financial Crisis.
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- The U.S. Federal Reserve has been at the forefront in the current tightening cycle, with recent increases in interest rate.
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- With better returns, this is leading to flow of capital from emerging markets to the West, putting further pressure on various emerging market currencies.
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- The rupee, for instance, has depreciated significantly in value against the U.S. dollar in the last year alone.
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- This probably explains the divergence in the performance of the dollar vis-à-vis other emerging market currencies against gold.
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- The U.S.-China trade war and the lowered rate of Chinese economic growth have added to fears of a global economic slowdown.
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- Furthermore, with increased volatility in stock markets, investors seeking financial safety have turned to gold and boosted its price.
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- Besides, many central banks have been trying to hoard gold to restore confidence in their currencies.
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- Driving factors - Apart from short-term influences, there are other long-term factors at play as the price of gold is moving towards new highs.
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- The fall in gold price after 2012 led to a fall in capital spending by gold miners.
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- This has meant that supply has failed to keep up with growing demand.
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- The depreciation in the value of national currencies against gold is also an indication of the increase in inflationary pressures across the globe.
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What lies ahead?

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- The easing of policy by global central banks can possibly put an end to the current increase in gold price.
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- This can go a long way in restoring investor confidence in the global economy.
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- Nevertheless, the challenge of the risks linked to debt-fuelled growth exists.
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Source: The Hindu

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