Rising Gold Price - Pandemic Times

Why in news?

After over 9 years, gold prices hit Rs 50,000 per 10 grams on 22 July 2020 in India.

What is the price scenario?

- Gold had a remarkable performance in the first half of 2020.
- It increased by around 25% from its low in March 2020 and significantly outperformed all other major asset classes.
- Gold futures prices soared to a 9-year high of $ 1,856.60 per troy ounce in London.
- It is inching closer to their record high of $1,920 an ounce hit in September 2011.
- [One troy ounce is equivalent to 31.1034768 grams.]

How big is India's gold market?

- India is world's second-largest gold consumer after China.
- Households in India may have piled up around an estimate 24,000-25,000 tonnes of gold.
- Various temples across the country also hold sizeable gold holdings.
- The RBI bought 40.45 tonnes of gold in the financial year 2019-20.
- This took its total holdings of gold to 653.01 tonnes.

Why is gold price going on increasing?

- Gold prices in India are dictated by international prices.
- International gold prices have been on the rise in the last few months.
- It picked up pace amid sharp losses in the dollar, additional stimulus measures and robust investor inflows.
- A host of factors have increased the appetite for gold, like -
    i. global uncertainties triggered by COVID-19 pandemic
    ii. weak dollar
    iii. low-interest rates
    iv. stimulus programmes
- Equity markets around the world rebounded sharply from their March 2020 lows.

- But the high level of uncertainty surrounding the pandemic persists.
- So, like money market and high-quality bond funds, gold benefited from investors' need to reduce risk.
- Rising virus cases and US-China tensions have also underpinned the gold price.

Why is gold a safe option?

- Gold is an integral part of wedding ceremonies in India.
- It is traditionally used as a hedge against inflation and considered as a safe haven for investors during periods of uncertainties.
- Whenever stock markets, real estate and bonds fall across the world, investors turn to gold to park their funds.
- The fall in the value of other asset classes and global uncertainties in the wake of Covid-19 helped gold climb to a record high.
- A key factor behind this robust performance is that the supply growth of gold has changed little over time.
- It has increased by approximately 1.6% per year over the past 20 years.
- [In contrast, fiat money can be printed in unlimited quantities to support monetary policy.
- E.g. the Quantitative Easing (QE) measures in the aftermath of the global financial crisis]
- Historically, gold has generated long-term positive returns in both good times and bad.
- Looking back almost half a century, the price of gold has increased by an average 14.1% per annum since 1973.
- [1973 is when Bretton Woods collapsed and the gold standard system of pegging the currency to gold ended.]

How does the future look?

- Prices are expected to go up to Rs 65,000 per 10 grams in the next 18-24 months.
- Because, the fundamental factors could continue, that are expected to dictate the price trend :
    i. lower interest rates and negative rates in some economies
    ii. enormous amount of liquidity
    iii. expanded fiscal balance sheets of governments which are trying to push growth amidst Covid-19
- So, precious metals would trade firm until the number of global cases of Covid-19 is under control or a vaccine is introduced, which is still a few months away.
- The pandemic will thus continue to reinforce the role of gold as a strategic

asset.

Source: The Indian Express

