NO GLITTER FOR GOLD

Don't place your bets on the yellow metal as yield on it has fallen sharply due to declining consumer interest and better investment options

The favourite metal of Indians is on track to yield negative returns for the third year in a row. In the international market, the yellow metal hit a low of $1045.85 per ounce, its lowest since February 2010. The sharp plunge was a result of a strong dollar which recorded a 12-year high as US Federal Reserve Chairman Janet Yellen hinted at a possible rate hike in the December policy meeting. Thanks to a fall in international prices in July, there was some correction visible at home as well—gold price, albeit briefly, fell below the Rs 25,0000-mark (for 10 grams). However, the prices quickly recovered as the rupee depreciated against the US Dollar.

Experts are of the view that 2016 is going to be no different. Below are some of the factors that will affect the yellow metal's performance.

US FED RATE HIKE

- The US economy is on the recovery road and the rate has been raised by 0.25 per cent.
- Higher interest rates mean a dent in demand for gold.
- The other after effect of rate hike will be the strengthening of dollar.

WEAK COMMODITY CYCLE

- Experts are of the view that if the commodity cycle is slow, one metal alone cannot buck the trend.
- Oil, which is currently hovering at a 11-year low is another factor that will keep the gains in check.
- Historically, it has been observed that gold tends to follow the same direction as that of oil. Goldman Sachs is of the view that in the near-term, oil could slip to a low of around $20 per barrel as there is an imminent risk of reaching storage capacity. This sharp slide in oil prices can trigger a deflationary fear which will have a negative impact on the yellow metal.

LOW PHYSICAL AND INVESTMENT DEMAND

- In India, the biggest market for gold is the 800 million people who are dependent on agriculture for their livelihood. For them, gold is the ultimate store of wealth.
- With back-to-back droughts, the investable surplus has reduced for farmers thereby trimming gold purchase.
- The other section of the population too seems to be turning away from gold and is opting for equity since the last two years. This has been evident in the exchange-traded fund (ETF) numbers. In the last 30 months, gold ETFs have witnessed steady redemptions.
- Globally too the trend looks similar. Assets in SPDR Gold Trust, the top bullion exchange-traded fund, are at their lowest since September 2008.
- The government too through various initiatives is out to dissuade people from buying physical gold, which will lead to low investment demand.

PURUSHOTTAM DIWAKAR

EXPERT VIEW

"The only event in which gold will make substantial gains is if the outlook for Europe deteriorates or some black swan events related to terrorism or other political fallout take place.

Vikas Gupta, executive vice president and chief investment officer, ArthVeda Capital

"Investors must continue to hold at least 10-15 per cent of their portfolio in gold as gold tends to outperform other asset classes during volatile periods. Even in times of negative real returns, gold stays true to being a store of value for investors."

Chirag Mehta, fund manager (commodities), Quantum Mutual Fund

However, commodity analysts are of the view that in case gold prices sustain below the $1000-mark, then miners could possibly take a backseat, thereby leading to supply side constraints. In such a condition, there will not be much fall in the gold price. Bank of America Merrill Lynch expects gold price to slide to $950 early in 2016, while Goldman Sachs predicts a price drop to or below $1,000. For the time being, the best case scenario for gold is between $1200 and $1225.

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