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Gold will continue shining as global recovery still out of sight

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The year 2012 will go down as one of the most eventful years for gold-jewellery lovers. Starting the year on a low ebb, the yellow metal earned Government's wrath as its increasing import pushed up the fiscal deficit.

Taxes were imposed to rein in runaway import. The Government imposed an import duty of 2 per cent on the value of the commodity against a specific rate of Rs 300 for 10 gm..

With no sign of fall in imports, the Government delivered the final blow to the industry in the Budget by doubling Customs duty on gold to 4 per cent and levying 1 per cent excise duty on unbranded jewellery.

About 90 per cent of the gold demand in India is met through imports, while the rest is sourced through recycled gold. In order to prevent round-tripping, a basic Customs duty of 2 per cent was levied on cut and polished, coloured gem stones on a par with diamonds.

A month-long all-India strike and widespread protest forced the Government to roll back the excise duty, but it stood firm on the import duty. Meanwhile, demand started tapering off.

PRICES ZOOM

Gold prices ruled firm for most of the year as the rupee depreciated against the dollar. Many investors lost faith in gold as a haven and thought that a bubble was building in the bullion trade. They started moving investments into other assets such as the dollar.

By the middle of the year, prices gained 11 per cent to Rs 30,400 for 10 gm against Rs 27,300 recorded on January 2.

On the Comex in New York, it was up 8 per cent at $1,660 a troy ounce against $1,530 at the start of this year.

Despite rising prices, gold-jewellery sales revived during the end of the year. Sales jumped sharply during the last-quarter festival buying. Interestingly, electronic jewellery sales rose during *Dhanteras* and Diwali, with many jewellers offering discounts and waiving off transaction charges.

2012 LOOKING BACK

Jewellery purchases through credit and debit cards increased by 115 per cent on *Dhanteras* (November 11) against last year, said Amrish Rau, General Manager, ICICI Merchant Services and First Data India.

Card spending on jewellery increased by 81 per cent in the three days between *Dhanteras* and Diwali compared with last year. A spike transaction through cards was registered in major metros such as Chennai and Delhi, he said. Rising gold prices and incentives by way of credit points on making big purchases pushed up jewellery purchases through cards.

ORGANISED PALYERS

The year was marked by emergence of organised retail trade in the jewellery sector. Three new jewellery companies got listed, bringing more transparency to the bullion trade.

The emphasis on quality, design and right pricing helped branded jewellery companies garner market share. However, they have a long way to go with 93 per cent of the gold jewellery market being controlled by unorganised, regional single stores .

The availability of funding through the capital market helped branded jewellers reach tier-II and tier-III cities. Breaking barriers, many South India-based jewellers targeted North and West India to push up sales.

Jewellers managed to capture sales at the lower prices with technology innovation in design and production. Single-shop jewellers were more than happy to be the franchise holders for big brands, as it reduced their operational cost. While franchise takes care of interiors and other incidental cost, the shop inventory is maintained by the company that owns the brand. Jewellers traditionally dependent on export shifted their focus to India, as an appreciating rupee shaved off profit. Unlike in the international markets where demand almost stagnated, in India it grew despite high prices.

LOOKING AHEAD

With uncertainty in the global economy still lingering, demand for gold is expected to remain strong next year. The yellow metal is considered an alternative for currency during financial crises. Hence, gold rises during such periods. Gold prices in India have started deviating from the global trend and are now more dependant on the rupee.

Prithviraj Kothari, Managing Director, RiddiSiddhi Bullions, said: "I still feel there are several more years of uncertainty and painful deleveraging, which could take a decade to end."

Gold, he said, will move between Rs 29,500 and Rs 35,000 for 10 gm through the year. It will mostly trade between Rs 31,000 and Rs 35,000, he added.

AGRI-COMMODITY PRICES