

Gold ETFs become less lucrative with gold prices above ₹ 30k

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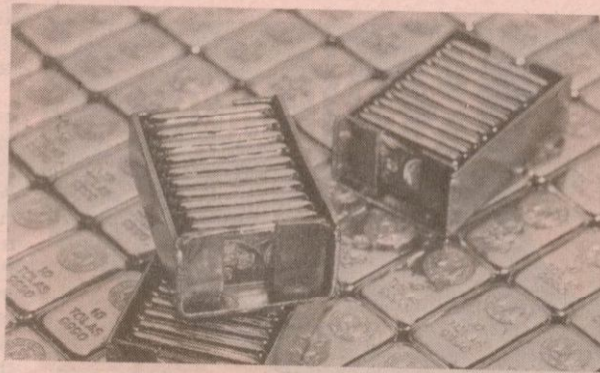
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At a time, when assets under management (AUMs) of gold exchange-traded funds (ETFs) have touched a new high of ₹ 10,300 crore during May 2012, the investments for gold ETFs have almost dried amid record high gold prices, which has crossed ₹ 30,000 per 10 gms.

Analysts see demand for gold ETFs to remain dull mainly due to dollar-quoted gold imports making it costly at the currency exchange rate of over ₹ 56 a dollar. Gold prices surged to an all-time high of ₹ 30,550 per 10 gms on June 14, 2012. The Association of Mutual Funds in India (AMFI) data showed that the AUMs of gold ETFs nearly doubled on year-on-year basis to ₹ 10,312 crore as on May 31, 2012, from ₹ 5,463 crore a year ago.

Gold prices have gained about 10 per cent so far during the current year.

Amfi data showed that net inflow of investments in gold ETFs so far during the current year has been ₹ 9 crore against a robust ₹ 690 crore in the same



period last year. During May, gold ETFs saw a net outflow of ₹ 41 crore, highest since January 2008.

Industry players maintained that gold ETF investments have almost dried in recent weeks.

"There is a drop of at least 50 per cent in fresh investments. And this may further go down as people see more opportunity for profit booking in gold ETFs at high prices," said Prithviraj Kothari, managing director, Riddi Siddhi Bullions Limited - a leading gold trading company and a gold ETF player in India.

According to analysts, with

gold prices hovering above ₹ 30,000 per 10 grams, investors have started making profit booking.

"Gold ETF is a price elastic product. So when prices go up sharply, investors do profit booking. The total AUMs of gold ETFs increased during May mainly because of the escalation in the gold prices. Our AUMs have remained steady in the range of ₹ 30-40 crore," informed Nitin Rakesh, chief executive officer, Motilal Oswal Asset Management Company.

It may be noted that in April 2012, the AUMs of gold ETFs stood at ₹ 10,218 crore.

Analysts see limited returns from gold ETFs in the current market conditions. "In the current market scenario, it is advisable to invest 40 per cent of investment portfolio in equities, 40 per cent in other commodities and 20 per cent in gold or silver and related products. Equities may perform better than ETFs over the next few months," said Chokkalingam G, executive director and chief investment officer, Centrum Wealth Management Ltd.

"International gold was quoting US \$ 1920 per ounce one year back, which has now fallen to around US \$ 1620 per ounce. But the correction is not seen in domestic market mainly because of rupee effect. Once rupee strengthens against dollar, we can see domestic gold prices to moderate," said Chirag Mehta, fund manager at Quantum Asset Management Company Pvt Ltd.

There are 14 gold ETFs operational in India with total AUMs of ₹ 10,312 crore, forming 2 per cent of the total AUMs of the industry.