

Gold funds' growth plans halt; jewellers push for recycling

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With the Reserve Bank of India curbing gold imports, gold-backed exchange-traded funds and gold fund-of-funds find their expansion plans at standstill. On the other hand, jewellers, faced with shortage of gold, are encouraging recycling of used jewellery by their customers.

Gold exchange-traded funds are awaiting clarifications from the RBI on gold import regulations.

According to Prithviraj Kothari, Director of Riddhi Siddhi Bullions, authorised agent for several of the gold exchange traded funds in the country, exchange-traded funds are unsure how to expand their assets.

Expansions require creation of new units, which will in turn need fresh gold imports.

Gold exchange traded funds create new units against cash or gold given to them by an investor. "Now that there is the 80:20 rule, fund houses are on the wait..." he said.

But demand for ETFs is currently weak. In the June quarter, the net outflow from these funds was Rs 206 crore as re-

ported by the Association of Mutual Funds of India.

The Reserve Bank of India last week stipulated that 20 per cent of every consignment of gold imported by banks has to be exported. Not much imports have happened since then.

This has caused a short supply of the yellow metal in the domestic market with banks and bullion dealers asking for premium of around 3-5 per cent (above the landed cost).

The premium is likely to rise further as the Diwali season approaches, say market participants.

Kumar Jain, Vice-Chairman of the Bombay Bullion Association, said that imports in July would be around 50 million tonnes, a third of 162 tonnes recorded in May.

Haresh Soni, Chairman of the All-India Gems and Jewellery Association, told *Business Line* that they have asked all the members to incentivise sale of old jewellery by offering better prices.

"This will help bring in some supply and reduce pressure on prices," he said. Thangamayil Jewellery, a large player in the South mar-

kets said that it will soon kick-off promo ads offering a lower wastage charge for old scrap gold.

ALTERNATIVE TO COINS

In its bid to reduce gold consumption, the RBI has also asked banks and jewellers not to sell gold coins.

With jewellers not selling gold coins, are people who are coming to shops to buy gold coins, returning empty handed? "No", say jewellers.

B.A.Ramesh, Joint Managing Director of Thangamayil Jewellery, said: "When we say we don't have coins, people ask for chains or bangles and buy them".

Soni says that seven out of ten customers who come to shops settle for some jewellery.

People who are hoarding gold as an investment are looking at less expensive jewellery for which making charges are not too high.

Making charges start from 8 per cent and go up to 20-21 per cent on a piece of intricate jewellery. Chains, for which the labour cost is only 8-9 per cent, are in good demand now, say jewellers.

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