

# Not A Golden Year



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Gold acted like a new born baby this year. It showed new movements and new trends which were quite difficult to understand, analyze and justify. But this baby though adopted by many was also abandoned by a handful chunk of people.

Gold that has always stood proud in its category, for the first time in 13 years, it gave negative returns. Moreover, it's headed for an annual drop of 25 percent. Gold has been in a significant bear market since reaching a record high at \$1,910 an ounce in 2011. On April 15, the gold price plunged about 9%—the biggest one-day loss ever for the yellow metal. In its collapse gold bullion lost \$705 an ounce or 37% of its value to the recent low at \$1,195. Some say the no. '13' as considered unlucky by many; has proved to be inauspicious for gold too.

The international markets witnessed the following highlights in the year 2013 that were responsible for volatile movement of bullion prices.

- Cyprus Bailout
- Syrian Conflict
- Statement by FED that it may taper its bond buying program by late 2013
- US government shutdown
- US debt ceiling being raised

Throughout the 1st quarter gold was seen in a range of 1554\$ an ounce to 1695\$ an ounce. Though gold declined to \$1554 in February it managed to cross the 1600 mark in March - Thanks to Cyprus. The Cyprus crisis had offered gold a helping hand, after investors had been pulling out of the precious metal

On the other hand, the Indian government hiked duty on gold to 6 per cent from 4 per cent to rectify the current account deficit on January 21, 2013

Gold also saw a booster coming in from US lawmakers that were successful in averting the fiscal cliff at the

12th hour, this too pushed up gold prices

On Friday, 12th April, Gold witnessed a record drop and for the first time in history it crashed 80 dollars in a single trading day this reaching \$1484. Panic selling had triggered this downfall.

Some 158,200 tacts of gold bullion (roughly six tonnes) were sold in six auctions held by the State Bank of Vietnam. There was news that as soon as the international markets opened, Merrill Lynch sold 4 million ounces of gold. Heavy ETF selling was also seen in the markets.

Gold dropped further trading at 1385\$ at one point of time. Till mid June gold managed to be above the \$1400 mark but news about the recovery of the US economy dropped gold prices and it was seen trading at around 1385\$.

During mid July the FOMC minutes reviewed that many Fed governors would like to see more signs of improvement in jobs before agreeing to taper

What came as a turning point for gold was the civil war at Syria. Gold prices rallied above \$1430

Meanwhile, in South Africa the National Union of Mineworkers (NUM) has given 48 hours' notice of a strike at South Africa's gold producers. This too affected gold prices.

While in the domestic market, the Indian rupee slipped for the third consecutive day in a row on Wednesday to close at a fresh record low of 68.80 per dollar, as uncertainty over a possible US-led military strike against Syria knocked down Asian equity markets and currencies. This was the biggest ever single day fall for the currency since 1995. But then in September, stepped in Mr. Raghuram Rajan- he was then considered the savior of the depreciating rupee.

Finally.....the much awaited and the most discussed meeting was held this week. The FOMC meet began on 18th September and was over by the 19th. All expectations, rumours, speculations and predictions were finally put to a halt.

Just when India marked the onset of its festive season, the US was heading for a partial shutdown. Though the partial shutdown did not create much impact on gold prices globally, this

shutdown along with the debt ceiling will surely have a major impact on bullion prices worldwide. As shutdown entered its second week, there prevailed a lot of uncertainty in the markets.

Finally, in the first week of November, just after Halloween, the Fed stated that it would not taper its bond buying right away as it needs concrete evidence over US economy's growth. Though this should have pushed up the gold prices, completely opposite happened. Gold was down 6.1% in November, the worst performance since June when prices touched a 34-month low of 1180.5\$

U.S. Senate leaders finally announce a deal to end a political crisis that had partially shut down the federal government and brought the



world's biggest economy close to a debt default that could have threatened global financial calamity.

The deal, however, offered only a temporary fix and does not resolve the fundamental issues of spending and deficits.

But what came in as a silver lining in the dark clouds for gold was the demand for gold from China. It finally overtook India as the largest consumer for gold as it imported 131 tonnes of gold in October through Hong Kong.

## Conclusion

Gold has lost its appeal as a safe haven asset. But yes, the market is still divided into two segments. Some who have abandoned gold like the net outflows of ETFs while others who have adopted it with the belief that gold prices will rise and the metal will always serve with a safe haven appeal like the central banks of the world. These sentiments are based on the expectations that the US debt ceiling that has been avoided only till Feb 2014 and the worse is yet to come which will break all highs for gold.