

Gold may get attractive on US recovery

Dipti Jain | TNN

New Delhi: After rising for several months, gold prices are likely to see a gradual decline in the short term on the back of strong global cues. With the US economy showing signs of recovery, domestic gold prices are expected to settle at under Rs 30,000 per 10 grams by March although the decline may not be as steep as international prices.

Gold price in India touched a six-month low of Rs 29,794 per 10 grams on Saturday, while the spot market price was around \$1,610 an ounce, the lowest since August. In the futures market, traders expect gold to trade around current levels in April although Indian bullion experts are predicting a \$50-60 slide over the next one month. At current exchange rate, this may mean a fall of around Rs

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2,700 in domestic prices. "The trend of weakening has just started. A strengthening US dollar will put more pressure on gold prices. So, technically, there is still scope for a slide," said Gnanasekhar Thiagarajan, director Commtrendz Research, an advisory firm.

"In the short run, we will

see some decrease before a consolidation in price happens," added Emkay Commodity CEO Ashok Mittal. After touching an all-time high of Rs 32,500 per 10 grams last November, the yellow metal has seen a steady decrease in prices. According to analysts, international gold prices have

declined by over 3% in the last one week, although the decline domestically has been less sharp owing to a weak rupee, which continues to trade around 54-55 to a dollar. Compared to a year ago, gold price in the local market is around 7% higher, while it is trading 6.5% lower in the international market.

The decline in price is also expected to counter the effect of the increase in import duty on the yellow metal in January this year. "Price of gold in international market has fallen by over 3%. At home too, the rupee is expected to appreciate. The combined effect of these two factors on gold price will be higher than the impact of the duty hike," said Prithviraj Kothari, director, Riddi-Siddhi Bullions.

In a bid to rein in the widening current account deficit, the government had increased

the import duty on gold from 4% to 6% in January this year. The anticipated increase in duty had led to a record buying of gold in the last quarter of 2012 with gold demand increasing over 40% as compared to the same period in 2011.

While a declining trend in gold price is expected to push demand, analysts say consumption is likely to remain dull in the first quarter as buyers will wait for a consolidation in prices before making any purchases. Gold demand in India declined by around 12% in 2012 as compared to the previous year. With no festivals or marriage season in the short term, a pick up in demand is expected only after the first quarter, World Gold Council has predicted. But if prices fall significantly, demand could pick up more rapidly and add to government's worries.