Demand for physical gold to be muted this Dhanteras

fe Bureau
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THE demand for physical gold on Dhanteras, the second day of the Diwali festival, considered auspicious to buy the yellow metal, is likely to stay muted this year. While domestic gold prices are trading at levels similar to the last festive season, bullion traders say demand is likely to be "dismal".

According to Bombay Bullion Association (BBA) estimates, demand for gold coins and jewellery declined by 75% and 60% respectively in the two weeks leading to Dhanteras, compared with the same period last year.

"Buying activity is impacted by the economic slowdown and higher volatility in gold prices," said Suresh Hundia of BBA. He pegged the festive demand led monthly imports around Diwali at 80 tonne last year.

"This year, while imports are yet to pick up following clarity around the new import rules, supply in terms of recycled gold and illegal channels seems sufficient to meet the slow demand," he added.

On Thursday, standard gold prices in Mumbai were quoted in the range of ₹30,800- ₹30,700 per 10 gm. Last week, prices touched a two-month high of ₹32,015 as international spot prices rallied towards $1,350 per ounce. Even the premiums had soared to $125 per ounce as traders expected festive demand to outstrip supply.

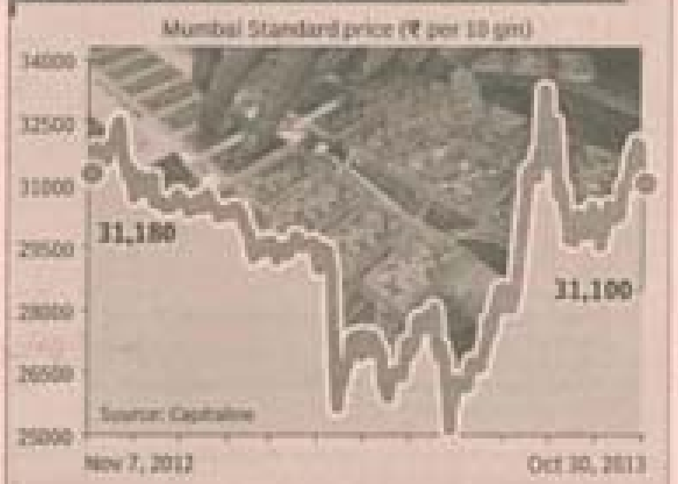
However, in the last two trading sessions the premiums have fallen to $70-$50 because demand seems lower than earlier expected.

"Lower pick-ups in the last weekend on the occasion of Pushpa Nakshtra may be a precursor of subdued purchases on Dhanteras. Instead, investors were either liquidating some of their gold holdings on higher prices or considering silver as the auspicious token investment," said Mukesh Kothari, director of RSBL, one of the leading bullion dealers of India.

Kothari pointed out that in the last six months, prices have turned volatile in the range of ₹28,000 and ₹32,000. As a result, investors are postponing their buying activity.

Some experts, however, said the slowdown in investment demand may be more severe than the slowdown in demand for physical jewellery.

GOLD PRICE BACK AT HIGHS



LATELY, CONCERNS OVER PROCUREMENT OF GOLD HAVE RISEN BECAUSE OF STRICT RESTRICTIONS ON IMPORTS ALONG WITH A HIKE IN IMPORT DUTY TO 10%. IN THE SEPTEMBER QUARTER, GOLD IMPORTS ARE BELIEVED TO HAVE DIPPED TO 50 TONNE

"Investment demand is currently capped due to price fluctuations and the future outlook on prices. Even restrictions on the sale of coins and bars have impacted investment demand. However, jewellery demand is likely to be less impacted as most of it is wedding-linked," said RK Sharma, chief operating officer, PC Jewellers.

He added that while every year, jewellery purchases during Diwali jump by 20%-25%, the growth may be only 10-15% this year, especially for unorganised players.

Generally, jewellery-led demand accounts for about 60%-65% of India's annual gold imports. In the quarter ended June 2013, when the Mumbai prices averaged at a two-year low of ₹27,230, jewellery consumption stood at 199 tonne.

Lately, the concerns over procurement of gold have risen because of stringent restrictions on imports along with a hike in import duty to 10%. In the September quarter, gold imports are believed to have dipped to 50 tonne, compared to the previous quarter's record of 338 tonne.

Interestingly, even gold ETFs (exchange traded funds), which are deemed to represent retail investment demand, have seen continuous redemption in the last four months. On the back of ₹1,196 crore in redemptions between June and September, total redemptions in 2013 now stand at ₹1,226 crore, compared with ₹297 crore of purchases in the same period last year.

Also, unlike the last couple of years, domestic exchanges have not announced extended or special trading hours on the day of Dhanteras.

Last year, both BSE and NSE had collectively clocked in a turnover of ₹2,200 crore in gold ETFs.