



Is "Yellow Metal" losing sheen?

Asian buyers rushed to buy gold jewelry across stores and bank outlets to buy ornaments, coins and bars after the gold slipped by 9.1% on 15th April in its ever slide worst slide since 1983. This drop below \$1400 an ounce (which is lowest since March, 2011) put the yellow brick in a bear market territory. But, the big question that comes to everyone's mind from here is to figure out where it's headed next?

The opinions of analysts from all over the world puts you in a dilemma as to whether the era of gold is over or is there some steam still left in the yellow metal. Some claim that, holding gold is not a good idea as US Dollar is strengthening and interest rates in US are expected to move up. However, others are of the opinion that, the bull market is very much intact even if there's a lot of uncertainty at the moment for investors and expect that gold will return to pre-April levels because the long-term drivers of demand are firmly in place.

Macro Economic situations for Gold

Gold reserves:

Firstly, if we analyze the world wide data of gold reserves released by World Gold Council on April, 2013 we realize that gold reserves of European countries like Germany and France have declined this year. These countries may have sold their gold reserves in order to save their economy from the clutches of recession. The table below can give you the brief idea about the reserves of top 5 holder countries of the gold:

(Source: World Gold Council)

	Gold(Tonnes)	Y-o-Y change	-----U.S. \$ mln-----				Rank
			Gold Reserves	Forex Reserves	Total Reserves	Gold share in total reserves	
World	31,671.42	466.856	1,687,77	11,374,00	n.a.	n.a.	-
U.S.	8,133.46	0.0008	433,434	139,13	572,568	75.7%	1
Germany	3,391.34	(4.9500)	180,726	67,422	248,148	72.8%	2
IMF	2,814.04	Nil	149,961	0	--	--	3
Italy	2,451.84	Nil	130,659	50,499	181,158	72.1%	4
France	2,435.38	(0.0300)	129,782	54,231	184,013	70.5%	5
India	557.75	Nil	29,722	270,587	300,309	9.9%	11

Global Inflation:

Quantitative easing announcement by Japanese Government could not pull the inflation figures globally as they are already into the deflation side and need some measures to recover themselves. At the same time, pushing for an earlier exit from quantitative easing by some Fed officials could balance the inflationary situations. Consequently, if the global inflation is under control, gold prices might slid further down.

We can see some bearish sentiments in the short term as holdings on SPDR Gold Trust, the world's largest gold-backed exchange-traded fund are still down about 3 to 4 tons every day. SPDR has said that its holdings fell 0.31 percent to 1,062.30 tonnes as on 29th April, 2013 Monday -- the lowest since August 2009. In terms of ounces, holdings fell to 34,153,901.

Indian Economic Situations

During the announcement of Union budget 2013 our finance minister Mr P. Chidambaram has blamed the deficit on a "passion" for gold, saying the gap is a greater concern than the worst budget deficit among the so-called BRIC nations. The deficit widened to \$32.6 billion in the last quarter of 2012. Also Indian Government is taking various steps to cut physical demand for gold like:

The central bank restricted overseas purchases by banks to reduce domestic demand and curb a record current-account deficit

India has tripled import taxes on gold from as low as 2% in January last year

Inspite of this, the demand for gold in India is good ahead of the wedding season and the Akshaya Tritiya festival on 13th May. The festival is considered by the country's more than 900 million Hindus as the traditional day to buy precious metals. Bullion is bought during festivals and marriages as part of the bridal trousseau or gifted in the form of jewelry by relatives.

Outlook:

Over all fundamentals are saying that due to the international economic situations gold prices are expected to remain downside for the short term. However, gold prices are expected to remain strong in the last quarter of the year. International gold prices may range around \$1,560-\$1,300 an ounce (Rs. 29200-25000 per 10 gms in India), for the year. Further, there are no extraordinary bullish fundamentals foreseen that may push prices to its Pre-April levels.

Early Bird Reminder: Arihant Commodity Research Desk had predicted the downfall towards \$1,300 (Rs.26,000 in India) in Gold prices way back in early January 2013 when gold prices were trading around \$1,700 (Rs. 31,500 in India) as on 2nd Jan,2013.

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