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Indian Investors and Chase for Gold : An Appraisal for 2010 and 2011

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Abstract: *The main function of gold in India was to merely to beautify and act as a status symbol. The emotional investment in it was very huge. And recycling the same was highly impossible.*

The current scenario made it clear that an increasing number of Indians are realizing that gold deserves a place not just in the locker at home or at the bank, but also in their investment portfolio. Gold purchases in India accounted for 32 per cent of the global total in 2010. Also, observed that consumption of gold in India was increased marginally by 1.7 per cent during the year 2011 and touched around 980 tonnes compared to 963.1 tonnes of the previous year. Approximately 75 per cent of the total Indian gold is converted into jewellery in 2010, the remainder accounted for by investment and technology.

The macroeconomic forecast to 2020 showed, India is balanced for a very strong period of economic growth and this has significant, positive implications for all forms of gold purchasing in India. The 50 per cent of the Indian population is below 25 years and approximately 150 million weddings are expected over the next decade, which will drive gold consumption.

OBJECTIVE: *The objective of the study is 'to comprehend the ever-growing demand for gold in India irrespective of the continuous appreciation in its prices'.*

HYPOTHESES: *The hypotheses is that 'Indian demand for savings and real income levels will drive gold and not by price. The concluding observation is that emerging socio-economic trends may provide some challenges to the gold market; however, purchasing will be continued by India's long-standing and deep cultural affinity towards the gold.*

Keywords -Consumption, Demand for Gold, Investment, Portfolio

INTRODUCTION

Gold is the traditional favorite for Indian investors. A little change in the mindset of investors had been observed and now looking beyond gold as merely a commodity for consumption and started realizing its worth as the path for the investment. It has given steady returns over a period. The trust in gold as a Safe shelter and a good hedge against inflation. It had only climbed in the backdrop of current global economic scenario.

The result, of which, the yellow metal was become strong and well done then. The
entire world wanted to be part of the gold rush. Though prices had shoot up and were ranging around the Rs 27,000-level, they had failed to conceal its shine. On the contrary, the already huge hunger of Indians to consume gold only seems too whitened further. It again proved that among the various asset classes, gold had probably been the most secured one.

Investments in gold have yielded consistent and assured returns, especially in volatile times. Gold has always came out as a trusted pillar to fall back on. During the recent disaster in the global markets, including the US downgrading and the Euro zone issues, investors started investing their money into gold.

Consequently, the demand for gold went up. In addition, as there were no other comparably safe assets to invest in, the price of gold skyrocketed. Gold became more expensive as well as more desirable, with many Indian women's thirst for the precious metal. This thirst is very ancient the famous myth i.e. in Ramayana Sita had also fallen into the love of Kanchan Mruga for it's skin's Kanchuki (Choli) Reference : My earlier research paper.

The higher gold price has added to gold jeweler's desirability despite these challenging economic times. Gold's perceived value and enduring emotional appeal were not mutually exclusive, sets it apart from other traditional gifts, and apparently, holds the key to women's hearts.

Trends in Bharat (India) were crucial to the sector being the world's largest consumer of jewellery. Indian demand was stronger than in other regional markets. India's revenue from import of gold almost doubled in 2010-11 as compared to the previous year. Revenue turnover in respect of customs duty collected from the import of gold was Rs 2,553.52 crores in 2010-11 against Rs 1,567.64 crore in 2009-10; The then, Union Finance Minister Pranab Mukherjee (2011) said according to World Gold Council, India became the largest consumer of gold in the world followed by China. Against this background, the focus on the hypothesis that Indian demand for savings and real income levels will drive gold, not by price.

Review of Literature

According to a new research conducted by the World Gold Council (WGC), the demand for gold in India driven by rapid GDP growth, urbanization and rise in income and savings levels of the consumer. The gold purchasing would increase by almost three per cent per annum over the next decade. Gold demand in India will continue to be robust in the next decade. The cumulative annual demand will be in excess of 1,200 tonnes by 2020, valued at about Rs 2,50,000 crore at current price levels, and registered a growth of 33 per cent (Business-Standard April 1, 2011). According to the World Gold Council (WGC), gold imports in the first half of 2011 stood at 553 metric tons, whereas the total gold imports in 2010 were 959 metric tons and that total Indian gold imports were expected to touch a record 1,000 metric tons in 2011 (Reuters August 22, 2011). According to World Gold Council's (WGC) Gold Demand Trends report for the 2011 second quarter, India and China accounted for more than half of overall global demand for gold jewellery in three months ended June 2011, and the two nations also made up 52 per cent of global investments in gold bars and coins (Economic Times August 2011). The glitter of gold is taking the shine off India's growth story.

The report of World Gold Council states India's gold imports rose 60% in April-June 2011 with compared to previous year. As people snapped up the time-tested hedge against inflation. India has always been a huge gold consumer, but the yellow metal is now our second-biggest import, behind crude, up from fifth place in 2007-08 (Economic Times September 2011). Gold climbed above $1,700 an ounce to the highest level in a month. Concerns about Europe's debt crisis urged demand for the metal as a protection of wealth called the "catastrophic (terrible) risk" posed by the turmoil. "The size of the debt issues are unlikely to go away regardless of what policy makers decide," analysts at TheBullionDesk.com in London wrote in a report (Bloomberg October 27, 2011).

Objectives, Research Methodology and Plan of the Paper

The objective of this paper is to re-examine the debate on the determinants of Gold Quest in the Indian context, with the aim of adding to the information content of the demand for gold.

The research methodology used is descriptive and analytical, based on secondary sources of data from the relevant data gathered from the publications of World Gold Council Reports and from the websites of Bloomberg, Economic Times and Reserve Bank of India (RBI).

Module-II presents theoretical and empirical assessment of the reasonable determinants of India's Gold journey.

Module- III covers "Why to invest in gold?".

Module-IV focuses on Gems and Jewellery Industry in India.

Module-V deals with the fascination with gold hampering India's growth story.

Module-VI gives Concluding observations.

II INDIA'S GOLD mission :

Currently India has only one operational gold mine. As such, India was and is heavily parasite or dependent on imports mainly from Australia, South Africa and Russia. Market analyst always says that currently India and China are by means of the biggest markets for gold in the world. However, gold plays a different role for the Indians than for the Chinese. India has been the biggest gold market for centuries because Indians buy gold for its role in their Social, Religious and Cultural life. For the Chinese, attraction to gold is a recent incident because they buy gold primarily for financial purposes. India consumes about 800 metric tons of gold per year, i.e. 20 percent consumption of gold globally. More than 50 percent used for making gold jewelry. However, the per-capita gold jewelry demand in India is low. The per-capita demand in India was 0.61 grams last year, although this level is below the peak levels of 0.65 grams recorded in 1998. Moreover, gold is the most popular investment in the country. Indian investors generally buy gold as a safe guard against economic, political, or social up downs currency crisis (including investment market declines, escalating national debt, currency failure, inflation, war and social unrest). Over the past ten years, the value of gold demand in India has increased at an average rate of 13 per cent per year, as compared to the country's real GDP, inflation and population growth by six per cent, eight per cent and 12 per cent respectively. Also, estimated that around 30 percent of per-capita income saved and of this 30 percent, 10 percent already invested in gold.

The gold market in India freed up only in 1997, when the Central Government allowed banks and other government-owned firms to import the metal directly. On Jan. 3, 2011, the Reserve Bank of India (RBI), the country's central bank, allowed seven more banks to import gold and silver. With this, 31 Indian banks government-owned and private sector banks) then allowed to ship precious metals into the country. Karur Vysya Bank, Punjab and Sind Bank, and State Bank of Hyderabad are some of the new banks that got permission. RBI had used a part of gold (in parallel with government gold) for raising foreign currency resources. In early nineties, India faced severe financial and foreign currency crisis resulted in heavy balance-of-payments (BOP).

These overseas gold holdings used as part of reserve management to yield a return. In November 2010, the WGC announced that India had over 18,000 metric tons of gold stocks, the approximate Cost is $800 billion. India also represented at least 11 percent of global gold stocks. A WGC research paper titled "India: Heart of Gold" found that the amount of gold India had/has equivalent to nearly half an ounce per person, a figure which is considerably below Western market consumption, and representing the scope for future growth. While Indian consumers continue to stock gold despite rising prices, when it comes to total gold reserves in the country, India ranks 11th in the world with 557.7 tonnes of gold.

Table : 1 Top Gold Holdings as of June 2010 in (Mt. Tons)

Country	Gold Reserves (Tones)	Total Forex Reserves (%)	Rank
U S A	8133.5	74.7	1
Germany	3402.5	71.7	2
IMF	2,907	-	3
Italy	2451.8	71.4	4
France	2435.4	66.1	5
China	1054.1	1.7	6
Switzerland	1040	16.4	7
Japan	765.2	2.7	8
Russia	765.2	5.7	9
Netherlands	612. 5	55.8	10
India	557.7	0.81	11
ECB	357.8	25.9	12
Taiwan	422.1	25.9	13
Portugal	606.7	79.6	14
Venezuela	606.7	48.5	15
S. Arabia	143	2.7	16
UK	588.3	15.6	17
Lebanon	286.8	25.2	18
Spain	281.6	35.9	19
Austria	280	35.9	20

Source : http://investmenttools.com

Maharashtra, Gujarat, Kerala, Uttar Pradesh and Rajasthan are some of the major demand centers of India. The southern states like Kerala, Andhra Pradesh, Tamil Nadu and Karnataka account for over 40 per cent of the country's gold demand. The Vol. 1, No.2,December 2011 western (25-30 per cent) and eastern (10-15 per cent) regions are the next in consumption.

Above the ground gold stocks is different from the total gold reserves. India is the largest gold market in the world. The recovery of local gold demand to pre-crisis levels is of considerable strategic importance to the wider gold market.

Gold was and is an integral part of Indian society. It is the foundation of wealth and savings. As consumers have adjusted their price expectations upwards, a further rise in gold jewellery and investment demand anticipated and this trend projected to continue over the long run as local investors are buying gold driven by wealth growth motives. After the burning rally in gold rate in the last two years, the total value of the gold holdings in India — estimated at around 18,000 tonnes — has zoomed to around Rs. 45,00,000 crore ($1 trillion). For 121-crore strong Indian population, this works out to around Rs 1.5 lakh per household of four members. This is also equivalent to around 71 per cent of India's market capitalization of listed shares and 66 per cent of total GDP.

WHY TO INVEST IN GOLD?

Global Currency degradation: The US dollar fundamentally and technically very weak and had fallen dramatically. In the early stages of a massive global currency fall, which were tangibles, and most particularly gold, rise significantly in price? Gold bought and sold in U.S. dollars, so any decline in the value of the dollar causes the price of gold to rise. The U.S. dollar is the world's reserve currency – the primary medium for international transactions, the principal store of value for savings, the currency in which the worth of commodities and equities are calculated, and the currency primarily held as reserves by the world's central banks. Then it exposed of its gold backing, the dollar just became a fancy piece of paper.

Investment Demand for Gold Accelerated its Prices

When the crowd recognizes what is unfolding, they strive to find out an alternative to paper currencies and financial assets and it resulted in an enormous investment demand for gold. To facilitate this demand, a number of new vehicles like Central Gold Trust and gold Exchange Traded Funds (ETFs) created. Then Gold was an effective way to diversify the portfolio and protect the wealth created in the stock. The financial market has to invest in assets that negatively correlated with those markets. Gold is the ideal diversifier for a stock portfolio, simply because it is among the most negatively correlated assets to stocks.

Already, the prices of gold were volatile in the short-term, gold maintained its value over the long-term, serving as a shield against the deterioration of the purchasing power of paper money. Gold is an important part of a diversified investment portfolio because its price increased in response to events that crushed the value of traditional paper investments like stocks and bonds.

Alarming Financial Deterioration in the US:

In the space of two years, the federal government budget surplus transformed into a deep deficit. At the same time, the current account deficit (CAD) had reached levels, which had threatened currency collapse in virtually every other instance in history. Negative Real Interest Rates in Reserve Currency (US dollar): To contest the worsening financial conditions in the US, interest rates dropped to rock bottom levels, real interest rates became negative. There had been a very strong historical relationship between negative real interest rates and stronger gold prices. Dramatic Increases in Money Supply (Inflation) in the US and Other Nations: US authorities are terrified about the prospects for deflation given the unprecedented debt burden at all levels of society in the US. Other nations followed the US's example and global money supply was speed up. It was gold friendly. Gold was renowned as a shield against inflation. The most consistent factor determining the price of gold had been inflation – as inflation goes up, the price of gold goes up along with it. Since the end of World War II, the five years in which U.S. inflations at its highest were 1946, 1974, 1975, 1979, and 1980. During those five years, the average real return on stocks, as measured by the Dow, was -12.33%; the average real return on gold was 130.4%.

Now a days, a number of factors are conspiring to create the perfect inflation storm extremely simulative monetary policy, a major tax cut, a long term decline in the dollar, a scratch in oil prices, a huge trade deficit, and America's status as the world's biggest defaulter/cheater nation. Across the board, commodity prices were up even though the short-term absence of a weakening dollar, which often viewed as the principal reason for stronger commodity prices.

Existence of a Huge Gap between Mine Supply and Traditional Demand: Gold mine supply was roughly 2500 mt. tons per annum and traditional demand (jewelry, industrial users, etc.) had exceeded it by a considerable margin for a number of years. Some filled this gap by recycled scrap but central bank gold has been the primary source of aboveground supply. India is the largest gold-consuming nation in the world. China, on the other hand, has the fastest-growing economy in modern history. Both India and China were in the process of liberalizing laws relating to the import and sale of gold in ways that would facilitate gold purchases on a large scale.

Mine Supply anticipated to Decline in the next Three to Four Years: Even if traditional demand continues to grind down due to ongoing worldwide economic weakness, the supply-demand imbalance expected to persevere due to a decline in mine supply. Mine supply contracted in the next several years, irrespective of gold prices, due to a deficiency of exploration in the post World War-II era, a shift away from high grading which was necessary for survival in the sub-economic gold price environment of the past five years.

The natural exhaustion of existing mines.

Large Short Positions: To fill the gap between mine supply and demand, central bank gold mobilized primarily through the leasing mechanism, which facilitated producer hedging and financial speculation. Strong evidence suggests that between 10,000 and 16,000 tonnes (30–50% of all central bank gold) is currently in the market. This owed to the central banks by the bullion banks, which are the counter party in the transactions.

Low Interest Rates Discourage Hedging: Rates were low and falling. Thus, there was a little incentive to hedge, and gold producers not only hedging, they are reducing their existing hedge positions, thus removing gold from the market. Rising Gold Prices and Low Interest Rates Discouraged the Financial Speculation on the Short Side: When gold prices were continuously falling and financial speculators could access central bank gold at a minimal leasing rate (0.5–1% per annum), sell it and reinvest the proceeds in a high yielding bond or Treasury bill, the trade was viewed as a harm. Everyone did it and then there were numerous old short positions. These trades made no sense with a rising gold price and declining interest rates.

The Central Banks were nearing a modulation Point when they were Reluctant to provide more Gold to the Market: The central banks had supplied too much already via the leasing mechanism. In addition, Far Eastern central banks that are accumulating enormous quantities of US dollars rumored to be buyers of gold to diversify away from the US dollar.

Increased popularity of Gold: Gold would see in a much more positive light in countries. Prominent developing countries such as China, India and Russia have been accumulating gold. In fact, China with its 1.3 billion people recently established a National Gold Exchange and relaxed control over the asset. Demand in China expected to rise sharply and could reach 500 tonnes in the next few years.

Gold as Money is Gaining Credence: Islamic nations were investigating a currency backed by gold (the old Dinar), During the campaign the new President of Argentina proposed, during gold backed peso as an antidote for the financial disaster. Russia talked about a convertible currency with gold backing. One major reason investors look to gold as an asset class is because it always maintain the fundamental value. Gold would not get lost in an accounting scandal or a market collapse. No.2,December 2011

Rising Geopolitical Tensions: The worsening conditions in the Middle East, the US occupation of Iraq, the nuclear ambitions of North Korea and the growing conflict between the US and China due to China's refusal to allow its currency to appreciate against the US dollar slogan the geopolitical issues, which could explode at anytime.

A fearful public has a tendency to sink towards gold. Despite the fact that the United States the worlds' only remaining superpower, there were numerous of problems decaying around the world, any one of which could blow up with slight warning. Thus Gold often called the "crisis commodity" from the ancient time as it tends to outperform other investments during periods of world tensions. The very same factors that cause other investments to suffer cause the price of gold to rise. A bad economy can sink poorly run banks. Bad banks can sink an entire economy.

In addition, to the rest of the world, the integration of the global economy had made it possible for banking and economic failures to destabilize the world economy. As banking crises occurred, the public begins to distrust paper assets and turns to gold for a safe shelter. When all else fails, governments rescue themselves with the printing press, making their currency worth less and gold worth more. Gold has always raised the most when confidence in government is at its lowest. Limited Size of the Total Gold Market Provides Tremendous Leverage: All the physical gold in existence is worth somewhat more than $1 trillion US dollars while the value of all the publicly traded gold companies in the world is less than $100 billion US dollars. When the fundamentals ultimately encourage a strong flow of capital towards gold and gold equities, the trillions upon trillions worth of paper money could boost both to understand high levels. Aristotle defined five reasons why gold is money in the fourth century BC. Those five reasons are as valid today as they were then. A good form of money must be durable, divisible, consistent, convenient, and have value in and of itself.

GEMS AND JEWELLERY INDUSTRY IN INDIA

The Gems and jewellery sector had/has a huge market in India and abroad. This market encompassed various kinds of jewels including gold, colored gemstones, costume jewelleries, platinum and diamonds. The sector was expected registered a compound annual growth rate (CAGR) of 13 per cent during 2011-2013, according to a report "Indian Gems and Jewellery Market Forecast to 2013," by research firm RNCOS. The RNCOS report came out in the year 2010, and was indirectly supported by the findings of a leading industry body and published in the same year. The growth rate of the gems and jewellery industry in India stands at 15 per cent, while the domestic jewellery market was worth US$ 16-18 billion. As exports were concerned, this and jewellery sector helped India to earn about US$ 25-35 billion in the form of export revenue.

A steady sale of jewelries, especially of gold, has helped the gems and jewellery industry in India flourish at this rapid rate. Moreover, people were also invested their money in gold as a future recourse to face tough times. In addition, India has evolved as a great place for diamond processing, according to the industry body.

Gems and Jewellery Industry in India:

Industry Structure: Gold is the principal raw material for making jewellery in India. In 2007 gold had a market share of US$ 12.24 billion (Rs 550 crores), while diamond had a market share of US$ 2.56 billion (Rs 115 crores). 80% of the gems and jewellery industry in India dominated by gold and the rest controlled by diamond and gemstone industry. This trade in India mainly fragmented as 96 percent of total business came from unorganized sector.

Gems and Jewellery Industry in India: Gold –

The importance of gold in the Indian gems and jewellery sector is important. In the year 2008, India's gold consumption rate was of 24 per cent, according to the report "Indian Gems and Jewellery Market Forecast to

2013," by research firm RNCOS (The Research and Analysis Agency). This made the country became a leader in the table of most gold consuming nations with the consumption amounting to about 16,000 tonnes. The other key markets include Japan, China, Turkey, Italy, USA and UK. It expected that the Gems and Jewellery industry would enjoy a growth of about 8.5 per cent in the period upto 2015. It also estimated that about 600 tonnes of gold used to make jewellery.

Gems and Jewellery Industry in India: Diamond –

Present, India is the major polishing and cutting hub for diamonds. India is also the third largest consumer of polished diamonds. The surge of urbanization and rapidly growing middle class in India has led Indian consumerism to new heights, particularly in the diamond jewellery sector. Every 11 out of 12 diamonds sold around the world processed in India regardless of the place they mined.

Export of Gems and Jewellery: When it comes to export in the year 2006-2007 Indian gems and jewellery industry made exports worth US$ 17.1 billion. During 2007-2008, it rose to US$ 20.88 billion, which meant a growth rate of 22.27 per cent. Of this total export, about 26.91 per cent were gold jewellery, whole diamond jewellery constituted 70.59 per cent of the total number. During the first part of the 2008-09 fiscal period the export rate rose by 17 per cent and reached US$ 9.05 billion, and by the end of 2009 the export reached US$ 25.11 billion. In the year 2010, this grew even further and reached US$ 37.14 billion.

Most of the gems and jewellery products from India sent to the US and European markets constitute about 60 per cent of India's gems and jewellery exports. Indian exporters are also exploring other new markets including South America and East Asia. The statistical calendar year, 2011 showed that the gems and jewellery industry in India has exported products worth US$ 6659.27 million until the month of May. During the April-May period of 2011, gold jewellery exported amounting to US$ 264.53 million, while polished and cut diamond export recorded at US$ 4259.70 million. The meaning was both these segments have increased their growth rate even further. While the diamond-processing segment had grown at the rate of 12.97 per cent, the gold jewellery segment recorded a growth rate of 19.87. The colored gemstones segment also had recorded an increase in profit compared to the last year and had earned US$ 44.65 million with a growth rate of 19.42. Rough diamonds consists of three per cent of the total export of Indian gems and jewellery industry.

Gems and Jewellery Industry in India: Government –

Initiatives: Mr. Pranab Mukharjee, the Union Minister of Finance, at the time of presenting the budget 2009-10 in Lok Sabha, announced an increase in custom duty on gold and silver as the price of gold has increased in multiple. Gold bars attracted customs duty at the specific rate of Rs 100 per ten grams while other forms of gold (excluding jewellery) are chargeable to a duty of US$ 5.63126 (Rs 250) per ten grams. These rates fixed in 2004. Along the same lines, the customs duty on silver (excluding jewellery) increased from US$ 11.2625 (Rs 500) per kg to US$ 22.5251 (Rs 1,000) per kg. These revised rates would also apply to gold and silver, including ornaments.

Gems and Jewellery Industry in India: Road Ahead

The huge growth of the Indian gems and jewellery industry had seen the advent many new branded jewellery shops in various metros of this country. Brands such as, Damas Jewellery, Reliance Retail, Warovski, and Joy Alukkas, Tanishq were either opening or have already opened their new branches. The availability of cheap labor and presence of well skilled people in various states of India resulted in the growth of diamond polishing and gold jewellery markets. According to experts in the jewelry industry, the surge in demand for expensive jewellery in India was a result of the strengthening Indian economy. India soon overtook the US in the coming future, according to a statement given by Rapport Group, the well-known keeper of global diamond related data.

FASCINATION WITH GOLD HAMPERING INDIA'S GROWTH STORY

As money has flowed into gold, India's household savings have moved away from productive financial assets, falling to 9.7% of GDP during 2010-11 compared with 12.1% in the previous year. This shift away from financial savings can dent growth, but it was difficult to say by exactly how much. It was shifted ft from household savings in financial assets towards gold, which we know had been happening, it would lead to some loss in the GDP growth, although it is hard to gauge the magnitude of the loss. Gold imports were up by the half a percentage point than of the GDP in the last three years, implying that much more of savings locked up in an unproductive asset. That much of the gold was imported also worsened the current account deficit. The hunger for gold seems too triggered by increased risk dislike after the global financial crisis. Surprisingly, the towering prices of gold, now at three-decade highs have not driven buyers away. Of course, national accounts do not consider gold as physical saving – gold imports considered as consumption – but as far as buyers are concerned, gold buying had a high savings consideration. Gold is the preferred form of savings for Indian people and their nothing one can do about it. It is, therefore, important to make financial savings more attractive. The fact that India does not produce much gold but imports most of the stuff increases leakages from the economy. If instead, the same money spent on other assets like homes, the money would have circulated in the economy. High gold imports were/are not good for the economy, but it was not material in the current economic environment. Since investments were not really taking off now this shift to gold could become a problem over time, as household savings in productive assets fall, but not right away.

Test of Hypothesis : The hypothesis that Indian demand for savings and real income levels will drive gold, not by price is proved in this study because, gold buying has a high savings consideration. India's purchase of gold apparently did not have any impact on the gold price trend and hence the stock of gold is in line with the global accumulation trend.

CONCLUSION

Gold is an integral part of Indian society. It is a foundation of wealth and savings in India. As consumers have adjusted their price expectations upwards, a further rise in gold jewellery and investment demand anticipated and this trend projected to continue over the long run as local investors are buying gold driven by wealth accumulation motives. Moreover, gold is the most popular investment in the country. old is a major vehicle of saving for large number of low and middle income households in rural and urban areas.

Over the past ten years, the value of gold demand in India has increased at an average rate of 13% per year, comparing the country’s real GDP, inflation and population growth by 6%, 8% and 12% respectively. The country currently had one of the highest saving rates in the world, estimated at around 30% of total income, of which 10%

already invested in gold. Indian gold demand has grown 25% despite the 400% appreciation in the rupee in the past decade and the demand in the country to increase by over 30% in real terms. The rise of India as an economic power will continue to have gold at its heart. India already occupies a unique position in the world gold market and, as private wealth in India rush forward over the next ten years, so it be will be the Indian demand for gold. That Indians are buying up gold for its virtues as an investment, rather than for adornment. It isclear from the way demand has behaved relative to prices. Traditionally, Indians were sensitive buyers of gold; they cut back on their jewellery purchases if gold prices spiked. However, there has been a sea change in that trend in the last year or so; Indian jewellery demand surged by nearly 70 per cent, even as gold prices made new lifetime highs. Now, this behaviour was odd for a consumer, but was very much the normal for a retail investor. If we are buying consumer goods, we scout for discounts and bargains. When it comes to investing, we buy more of the asset that has seen its prices rise!

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