

Even Indian demand falling as households move towards financial assets that deliver more value

Given how global growth prospects are looking a lot firmer than in the past, and even Europe looks more stable now, it is not surprising that demand for gold has been trending downwards for some time and is now at an eight-year low, according to data from the World Gold Council. Down to just 915 tonnes in the quarter ending September 2017, this level was last seen in the September quarter of 2009—in even the June quarter of 2016, demand was a robust 1,270 tonnes. While global growth steadying has been one reason for gold demand falling, another big reason is the collapse in demand from India that accounts for a fifth to a fourth of global demand—in the March quarter of 2012, for instance, India's imports were 23% of global demand whereas in the September quarter of 2017, this fell to 19%.

Indian demand fell for a variety of reasons including the fact that the government made it more difficult to buy gold without disclosing your identity—immediately, those that bought gold to store their [black money](#) found it difficult to carry on doing so. So, for instance, sellers had to do a KYC for all buyers above a certain value, restrictions were put on how much cash could be withdrawn from a bank at any point in time and on how much cash could be given for any transaction. In the case of household demand for gold, that in bars and coins—a rough barometer for those buying gold as an investment—was 31% of demand in the March quarter of 2012; this fell to just 21% in the September quarter of 2017.

What also lowered Indian demand was the stabilising of GDP prospects and the lowering of inflation levels—along with the dramatic returns stock markets were offering, there has been a significant fall in investment in physical assets like gold and land which are losing value, and a shift towards financial assets like mutual funds. Compared to FY12, gross financial savings of households are up from 10.4% of gross national disposable income to 11.8% in FY17—even in FY15, the number was as low as 10.1%. The biggest shift is in the 'shares and debentures' segment where the jump is from 0.2% in FY12 to 0.3% in FY16 and as much as 1.2% in FY17. This can also be seen from the assets under management of equity mutual funds, up from 1.7% of GDP in FY14 to 3.6% in FY17—while the bulk comes from the corporate sector, there is a significant increase in that invested by households.

Investments in gold are down from 2% of GDP in FY12 to 1.7% in FY15 and 1.4% in FY16—during this period, gold prices fell from around Rs 28,000 per 10 grams to around Rs

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24,000, making investing in gold a losing proposition. In terms of gold jewellery, roughly a proxy for household demand for gold, this fell from 1.3% of GDP in FY14 and FY15 to 1% in FY16. It could be early days yet, but it appears the Indian consumer is maturing and taking decisions on more rational economic grounds.