International Journal of Research and Review
Vol.8; Issue: 3; March 2021
Website: www.ijrrjournal.com
Review Paper
E-ISSN: 2349-9788; P-ISSN: 2454-2237

Impact of Corona on Gold Rates

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ABSTRACT

The corona pandemic has impacted each and every sphere of human life. Its impact on investment decisions can also be felt. For long term benefit and risk-free investment, gold is always considered as a safe zone. Even small investors such as household prefer it rather investing somewhere else. With the beginning of the pandemic, when the whole nation went into complete lockdown, many investors and institutional investors especially from Europe and America invested huge capital in Gold backed ETFs. As per the World Gold Council review, after China, India is the second largest consumer of gold but the demand for them reduced drastically during these challenging times. But the price for gold reached a historic high at Rs.53,250 per 10 gram. Gold backed ETFs and similar products (gold ETFs) had a remarkable year in 2020. Data from World Gold Council, Bloomberg was studied Globally, gold ETFs had record annual net inflows of US$47.9bn or 877 tonnes. Gold rose 25% during 2020, hitting a historical high of US$2067.15/oz on August. It was found that when economy was worst affected, production stopped, many people lost job, share prices crashed, gold became very lucrative and showed how its rate is inversely related with the economic growth.

Keywords: - Gold rates, corona pandemic, ETF (Exchange Traded Fund)

INTRODUCTION

The year 2020 was full of challenges which posed a great difficulty for the whole nation. Even the investors were not spared. The whole nation went into complete lockdown from March end 2020. Investors who are the speculators always seek to gain more profit either investing in Mutual funds, real estate, shares or gold. Gold is always considered a safest mode of investment not only for the big investors but also for the households. India is the second largest gold consumer after China. The yellow metal saw various ups and downs in the corona pandemic period which crossed Rs. 50000 per 10 grams and made a history despite severe economic crises and recession in the economy. Through this study we will come to know how pandemic can pose a positive impact on yellow metal. There are many reasons in investing in gold. It is simple and easy to convert into cash. It was seen during the pandemic period that many people sold their gold to meet out the financial crisis because many people lost their job. Return rates of physical gold are also never too profitable if we invest in the gold jewellery because the price of the jewellery also includes the making charges. So many people instead of buying physical gold invest in gold ETF. In the 1st quarter the rate of gold rose extremely high. It is also being noticed that how the prices of various stocks impacted the purchase of gold ETFs. In the pandemic period India's GDP fell drastically, reached negative digits, investors searched for safe haven. Gold is scarce is nature, that's why India imports maximum gold it requires. Even though with reduced demand the prices of gold were skyrocketing. In India, the gold rates are determined by Indian Bullion and Jewellers Association which provides daily price which is based on:

a) International prices
b) The dollar-rupee exchange rate
c) Taxes and profit margin

As per World Gold Council sources there was a record gold backed ETF inflows of 877t in 2020 took holdings to all time highs reaching holding of 3751.5 tonnes and also the gold demand in India in CY20 stands at 252 tonnes, as compared to 496 tonnes in the same period last year. WGC data shows the demand for gold in Q3CY20 stood at 86.6 tonnes, down 30% as compared to the same period in 2019 at 123.9 tonnes. Gold demand value stood at Rs 39510 crore during the period under review, down 4% as compared Rs.41300 crore in Q3-2019. Gold demand for jewellery at the global level also dropped to 29% year on year to 333 tonnes in Q3CY20. In the year 2020, the global demand for gold came to 14% lower at 3759 tonnes, WGC said that the fall is due to the coronavirus pandemic which weakened the consumer demand. Since 2009 the global demand for the yellow metal on an annual basis slipped below the 4,000tonnes. The annual global demand India also witnessed a massive fall of 48% year on year to 52.8tonnes, as per WGC data. It was also found that in India and China many people invest in physical gold, but in U.S. and Europe they invest in ETF (exchange traded funds). Demand from western countries has increased a lot.

LITERATURE REVIEW

Dr. Puja Archana Sahu (2020) studies the impact of inflation on consumer behavior towards gold. According to them, gold investment should be encouraged being a easily approachable investment, when the prices of real estate market are increasing. Inflation has put a negative impact on the gold investment also its an accessory and shows social status.

Sowjanya A.M. (2020) observed that the implementation of GST made a positive impact on the gold sector. Implementation of GST has put gold market more transparent which led to reduction in the corruption. Customers feel GST as a extra burden on them, but it will lead to a corruption free economy. Though GST has increased the price of the gold. Before the implementation of GST, the gold tax rate was 2%i.e., 1% for service tax and 1% for VAT but now after the implementation of GST the gold tax rate is 3%.

Gnanadurai Pandithurai (2016) revealed that a comprehensive and simple framework can provide the investor with detailed information about the gold and it will ensure a proper expectation on gold and its role in a portfolio. The study also shows that there exists a close relationship between dollar price and the gold price. The study is about predicting the future price of gold and informing the investor about the impact of numerous factors that can affect the performance of gold in different economic environments.

Nishit K. Dave (2016) showed us that gold can act as a better portfolio unpredictability and minimize losses amid times of business sector fluctuations. When other assets are not performing well, gold can serve as a high quality, liquid resource. It also disclosed that there are positive correlations among gold prices and crude oil prices together with all the other key elements.

Shaun K. Roache and Macro Rossi (2009) examined that commodities tend to be less sensitive than financial assets – e.g., crude oil, the most actively traded commodity futures contract, shows no significant responsiveness to almost all announcements. The gold price is sensitive to several scheduled U.S. and Euro are macroeconomic announcements –including retail sales, nonfarm payrolls and inflation. According to them, Gold’s high sensitivity to real interest rates and its unique role as a safe haven and store of value typically leads to a counter cyclical reaction to surprise news, in contrast to their commodities.

RESEARCH METHODOLOGY

Secondary data was used from published resources such as from newspapers, data used from World Gold Council, and other published magazines. Explanatory research methodology was used. A deep analysis was done on the research findings and the causes of ups and downs were observed.

Table 1: Regional flows

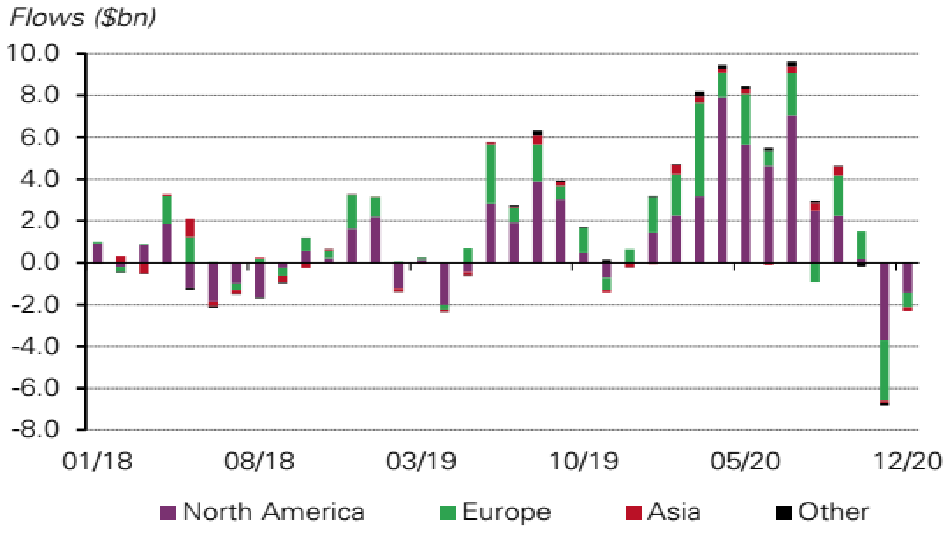
	Total AUM (bn)	Change tonnes	Flows (US$mn)	Flows (% AUM)
North America	121.8	563.3	31,874.0	45.21%
Europe	95.6	259.9	13,264.5	20.64%
Asia	7.2	37.6	1,893.1	48.74%
Other	3.7	16.3	899.1	41.12%
Total	**228.2**	**877.71**	**47,930.8**	**34.04%**
Global inflows		941.7	94,272.5	66.94%
Global outflows		-64.6	-46,341.7	-32.91%

India gold demand for the period January to December 2020 vs. the corresponding period in 2019:

Gold Demand	Q1-Q4 '19 January – December 2020			Q1-Q4 '20 January – December 2020			%growth		
	Tonnes	INR (crore)	USD (bn)	Tonnes	INR (crore)	USD (bn)	Volume tonnes	Value (INR)	Value (USD)
Jewellery	544.6	171,790	24.4	315.9	133,260	18	-42%	-22%	-26%
Investment	145.8	45,980	6.5	130.4	55,020	7.4	-11%	20%	14%
Total	690.4	217,770	30.9	446.4	188,280	25.4	-35%	-14%	-18%

Source :World Gold Council

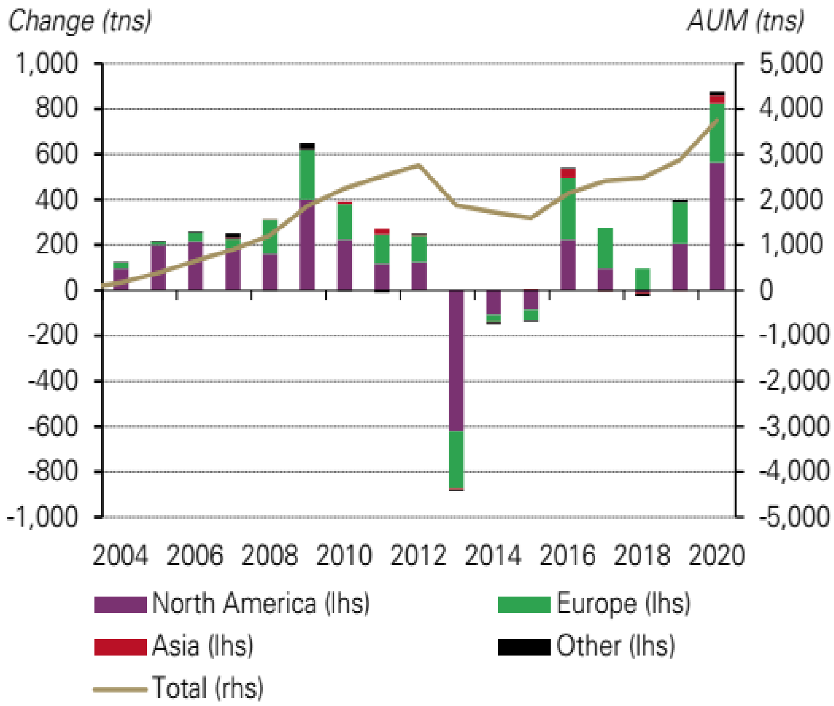
Gold backed ETF and similar change in holdings by month



*As of 31/12/2020

Source: Bloomberg, World Gold Council

Gold backed ETF and similar change in holdings by year



*As of 31/12/2020

Source: Bloomberg, World Gold Council

December total global gold-backed ETF flows*

	Total AUM (bn)	Change tonnes	Flows (US$mn)	Flows (% AUM)
North America	121.8	-25.7	-1,436.7	-1.25%
Europe	95.6	-12.6	-698.1	-0.78%
Asia	7.2	-2.2	-118.4	-1.72%
Other	3.7	0.4	20.9	0.61%
Total	**228.2**	**-40.1**	**-2232.4**	**-1.04%**
Global inflows		17.3	2,670.9	1.24%
Global outflows		-57.3	-4,903.3	-2.28%

*As of 31/12/2020 'Global Inflows' refers to the sum of changes of all funds that saw a net increase in ounces held over a given period (eg, month, quarter, etc.). Conversely, 'global outflows' aggregates changes from funds that saw ounces held decline over the same period.

Source: Bloomberg, World Gold Council

GLOBAL DEMAND TREND	2019	2020	YoY change (%)
Gold demand	4,386.4	3,759.6	-14
Jewellery	2,122.7	1,411.6	-34
Technology	326.0	301.9	-7
Investment	1,269.2	1,773.2	40
Total bar and coin	870.9	896.1	3
ETFs and similar products	398.3	877.1	120
Central banks & other inst.	668.5	272.9	-59

Source: Metals Focus, World Gold Council

GLOBAL DEMAND TREND	Q4'19	Q4'20	YoY change (%)
Gold demand	1,082.9	783.4	-28
Jewellery	590.1	515.9	-13
Technology	83.3	84.0	1
Investment	268.7	138.7	-48
Total bar and coin	245.3	268.7	10
ETFs and similar products	23.5	-130.0	-
Central banks & other inst.	140.7	44.8	-68

Source: Metals Focus, World Gold Council

RESULTS

The above figures shows that despite record setting inflows in the first 10 months of 2020 inflows turned negative in November and December. North American funds represented nearly 2/3 of global net inflows in 2020. The above data shows that Gold backed ETFs and similar products (gold ETFs) had a remarkable year in 2020.

Globally, gold ETFs had record annual net inflows of US$47.9bn or 877 tonnes. Gold rose 25 % during 2020, hitting a historical high of US$2067.15/oz on August.

North American funds had inflows of 563t(US$31.9bn, 45%AUM). Holdings in European funds grew by 260t (US$13.3bn, 21%). It is also seen from the above data that funds listed in Asia saw holdings rose by 38t(US$1.9bn,49%). Other regions had inflows of 16t(US$899mn, 41%). Despite dropping 12% in march, when markets were rocked by the onset of the COVID-19 pandemic, gold recovered to finish the year among the best- performing assets.

Gold demand in India was 446.4 tonnes in 2020, as compared with 690.4 tonnes in 2019 due to the corona which put lockdown and also because of high prices. Also total jewellery demand in India was down by 42% at 315.9 tonnes when compared with 544.6 tonnes in 2019.

Total annual gold supply was also affected and was 4%lower Year on year (4633t), the biggest fall ever.

During the December 2020 quarter, gold demand dropped 28% y-o-y to 783.4 tonnes.It was also observed that Gold jewellery demand in Q4 fell 13% y-o-y to 515.9 tonnes, resulting in a 34% lower than in 2019.

CONCLUSIONS

It is seen that the economic growth of a nation and the prices of gold are inversely related. It is observed that when the whole nation went into complete lockdown, the world economic growth came to a halt. In the first quarter of the financial year 2020-21, India's economy shrunk by -23.9%. Major countries like US economy also shrunk by -32.9% and UK by -20.4%. Again India's economic growth rate was -7.5% in the second quarter. Afterwards we saw a slow positive recorvery rate in the economy with news of declaration of vaccine. During the initial pandemic period, institutional investors basically for Europe and America, to safeguard their money invested in Gold ETFs hugely, as it is always considered a safe haven, which resulted in the rise in the price of gold. Though demand for physical gold in India, reduced by more than 90%. It is also observed that investors found gold as the most lucrative investment and started selling them when price of gold was utmost high.

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How to cite this article: Mridha S. Impact of corona on gold rates. *International Journal of Research and Review*. 2021; 8(3): 731-736.

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