



Is this the right time to buy Gold ?

I still recall the 'reverent' day when an uncle of mine, who happens to be a family friend, got into discussing good investments with me. He has been in the submarine of Indian markets for more than 2 decades now and is invested in almost all major asset classes – right from stocks and bond to gold and real estate, in addition to his own business.

While imparting his wisdom that he accumulated in the last 25 years, he said “ **Beta har saal thoda gold lete rehna, India me gold ka bhav kabhi girta nahi hai**”. Okay, to be strikingly honest, I was a little tongue-tied but then it did not come as a shock to me as I've heard this 'holy-grail' a couple of times now. What he said intrigued me somewhere and on my way back home, I got thinking to myself- “**Is gold really such a safe investment as it's fabricated to be or are people very conveniently missing out on something significant?**” “**Has the price of gold never seen a sharp correction in the past?**”. I decided to dig a little deeper into it this time.

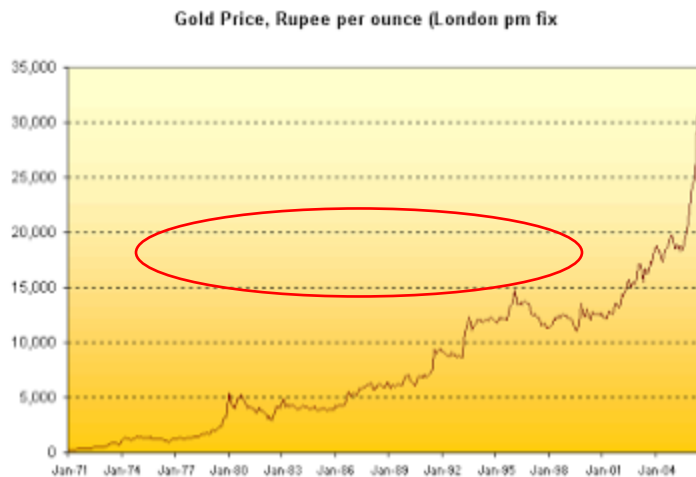
While researching on the same, I found something phenomenal. I came across a chart that showed a continuous decline in prices of gold spanning from 1980 to 2001.



What then made him say “sone ka bhav kabhi girta nahi hai”? Was he wrong?

Being a little baffled with the contradiction, I kept my eyes surfing through everything and anything about gold that I could lay my hands on. Only did I realise a while later that I was looking at gold prices in \$ currency. I then, almost instinctively, hopped on to a chart showing gold prices in Rupee terms.

I was even more flabbergasted by what the screen revealed!



Gold prices in Indian rupee have never seen any major correction from 1971 to 2001. It set all my cogwheels up there in fast track.

The long dragged mystery was finally solved. The reason was clear and sitting there right in front of us. After all, currency exchange rates don't demand attention only when it's a foreign trip. The gravity of it's importance is realised when you scrutinise the pattern of US\$ and INR exchange rate over the same span. It inhibits a Dominance effect- The appreciation in US Dollar has compensated for the loss in price of gold and hence, deluding Gold as a 'high return' investment in India.

Lets try and understand this step by step. (using data and prices of 2013)

Price of gold for 1 troy ounce (31.1 grams) = 1580 US \$ price of gold for 1 gram = 50.8 us\$

1 US dollar = 54.5 Indian Rupee (March 2013) Price of gold for 1 gram in Indian Rupee = $50.8 * 54.5 = 2770$ Rupees

Price of 10 grams of gold in Indian Rupees = $2770 * 10 = 27,700$

In addition to this, Indians import gold and have to pay 6% duty on the same to the government. So approximately the price of 10 grams of gold = $27700 + 27700 * 6\% = 29400$.

So the price of gold in India is determined by three main factors:

- 1) Price of gold in international markets
- 2) Indian Rupee – US \$ exchange rate
- 3) Import duty of the government.

So when the price of gold was \$1580/troy ounce gold, in India it was at 29400 per 10 grams.

Now in 2017 the price of gold has dropped down to \$1320/ troy ounce. This is nearly about a 13% drop in the international markets, but gold is still being traded in Indian markets at 30000 per 10 grams.

So what is supporting the gold price in Indian markets? The Dollar has appreciated from 55 in 2013

to 68 in 2017. Gold price = $\$ 1320/31.1 * 68 = 2886$ per gram 28861 for 10 grams + 6% import duty = 30,500

The price of gold has been falling in the international markets but has continuously increased in the Indian markets mainly because of the depreciation of Indian Rupee against the US\$.

AMAZINGLY PHENOMENAL, right?

To sum it all up, India has witnessed a glory in the gold prices due to depreciating Indian Rupee. Acknowledging the concern, can we still bet on gold being a safe investment spite of witnessing an appreciating Indian currency? What we talked about clearly shows an altering trend in the US\$ and Rupee exchange rate. Will we shut our eyes to this metamorphosis? Will we still disguise gold as being safe and sound for our wealth?

Lastly, I take the liberty of asking you all

The decision is yours to make. Remember, JUST A SIMPLE MAXIM- “ WHY AND HOW?”

