



COMMODITY PROFILE - GOLD

Gold is primarily a monetary asset and partly a commodity. Gold is the world's oldest international currency. It is an important element of global monetary reserves. Central banks, and official international institutions, have been major holders of gold for more than 100 years and are expected to retain large stocks in future.

Gold has maintained its purchasing power throughout its 5,000-year track record, as the world's only monetary metal. It is considered as a commodity as it can be acquired and stored in the form of Jewellery, Bars, Coins and Gold Deposits. It is also called precious metal, which means it does not rust (oxidise) at normal conditions. It is resistant against many acids and a good electric conductor, which makes it useful for electronic circuits. It is useful for jewelry because of its inertness.

Importance and Uses

Gold has mainly three types of uses: Jewellery Demand, Investment Demand and Industrial uses.

Jewellery Demand- Jewellery consistently accounts for around three-quarters of gold demand. In terms of retail value, the USA is the largest market for gold jewellery, whereas India is the largest consumer in volume terms, accounting for 25% of demand in 2007.

Investment demand- Investment demand in gold has increased considerably in recent years. Since 2003, investment has representing the strongest source of growth in demand, with an increase in value terms to the end of 2007 of around 280%.

Industrial Demand- Industrial and dental uses account for around 13% of gold demand

(an annual average of over 425 tonnes from 2003 to 2007 inclusive).

The value of gold is a result of its rareness and also of its interesting physical characteristics.

- Pure gold is too soft for ordinary use and is typically hardened by alloying with copper or other base metals. The gold content of gold alloys is measured in carats (k), pure gold being designated as 24k.
- Gold market is highly liquid and gold held by Central Banks, other major institutions and retail jewellers keep coming back to the market.
- Due to large stocks of gold as against its demand, it is argued that the core driver of the real price of gold is stock equilibrium rather than flow equilibrium.
- It is effective portfolio diversifier, which summarizes the usefulness of gold in terms of modern portfolio management.
- Gold is effective diversifier during economic stress periods or instability.

Over 60 countries including South Africa, US, Australia and Russia mine gold. Although gold mining industry is enjoying higher prices in recent years, they suffer because of higher input costs. Global mining output is also declining as quality and easily accessible ore has been mined at most of producing countries.

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International Scenario

South Africa, the United States and Australia are the three largest gold producing countries. Other major producers are Canada, China, Indonesia, and Russia. But if we measure only the current year's production, China has become the world's largest producer of gold, overtaking South Africa's top position in 2007. Turkey has become an important net exporter. Thailand is also exporting gold now. Vietnam is a large buyer for gold.

As gold has been considered as a proxy currency, its reserves are held by Governments i.e., Central Banks/ institutions of various countries. The survey carried out in 2005 revealed that US, Germany, France, Italy, Switzerland, Netherlands, Japan, Portugal, Spain and China were the countries where official gold holdings stood over 500 tons.

World Gold Demand & Supply

Table 1: Gold Supply and Demand Balance (in tonnes)

Year	Mine Production	Total supply	Total demand
2006	2486	3574	3409
2007	2473	3488	3526
2008	2407	3468	3659

Source: GFMS

Global demand ruling higher compared with supply (including mine output and old gold scrap) in recent years and as a result the market has witnessed price escalation. According to World Gold Council, gold mine production has declined to 2407 tons in 2008 compared with 2486 and 2473 tons in 2006 and 2007 respectively. The total gold supply including old gold scrap has been declining and stood at 3468 tonnes in 2008 as compared to previous year's gold supply of 3488 tonnes.

World Gold Supply

Mine production

Gold is produced from mines on every continent except Antarctica, where mining is

forbidden. According to data of year 2007, there are around 400 operating gold mines worldwide. Depending on the geologic situation, the mining is very different. However, the overall level of global mine production is relatively stable, averaging approximately 2,525 tonnes per year over the last five years.

The most important gold producer of the world is South Africa. The mines in South Africa can provide several superlatives. The Kruger Rand gold coins are world famous.

- The East Rand Mine is the world's deepest mine, 3585 m below surface.
- The Free Gold Mine was the world's most productive gold mine with the output of 115 tons per year.
- Driefontein Consolidated Mine has produced more gold than any other gold mine, about 2292 tons.
- Deepest single-drop mining shaft in the world has been sunk at South Deep Gold Mine.

Scrap

However, although gold mine production is relatively inelastic, recycled gold (or scrap) ensures there is easily traded supply when needed, and this helps to stabilise the gold price. Between 2003 and 2007, recycled gold contributed an average 26% to annual supply flows.

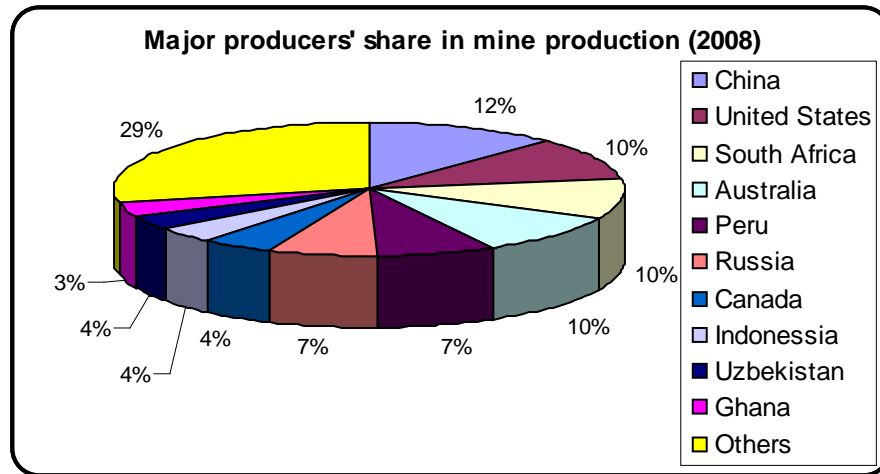
Central Banks

Central banks and supranational organisations (such as the International Monetary Fund) currently hold gold as reserve assets amounting to around 29,000 tonnes, dispersed across 110 organisations. On average, governments hold around 10% of their official reserves as gold. However, the proportion varies country-by-country.

Although a number of central banks have increased their gold reserves in the past decade, the sector as a whole has been a net seller since 1989, contributing an average of 520 tonnes to annual supply flows in 2003-2007. Net central bank sales amounted to just 486 tonnes in 2007 and it decreased to 279 tonnes in 2008.

Major Gold Producing Countries

Fig. 1: Major Gold Producing Countries' Share



Source: GFMS

China, United States, South Africa and Australia were the major producers of gold in 2008. These countries contributed over 40% of the total global mine production.

World Gold Demand

Demand for gold is widely spread around the world. East Asia, the Indian sub-continent and the Middle East accounted for 72% of world demand in 2007. 55% of demand is attributable to just five countries - India, Italy, Turkey, USA and China. Gold demand mainly comes from Jewellery consumption, Industrial and investment uses.

Jewellery Demand

Jewellery consistently accounts for around three-quarters of gold demand. In the 12 months to December 2007, this amounted to US\$54 billion, making jewellery one of the world's largest categories of consumer goods. In terms of retail value, the USA is the largest market for gold jewellery, whereas India is the largest consumer in volume terms, accounting for 25% of demand in 2007.

Investment Demand

Investment demand in gold has increased considerably in recent years. Since 2003, investment has representing the strongest source of growth in demand, with an increase in

value terms to the end of 2007 of around 280%. Investment attracted net inflows of approximately \$15bn in 2007.

Industrial Demand

Industrial and dental uses account for around 13% of gold demand (an annual average of over 425 tonnes from 2003 to 2007 inclusive).

Table 2: Identifiable Gold Demand (in tonnes)

Tonnes	2007	2008	% ch 2008 vs 2007	Q1'08	Q2'08	Q3'08	Q4'08	Q1'09	Q2'09 ²	% ch Q2'09 vs Q2'08
Jewellery consumption	2,404.4	2,185.8	-9	446.7	517.8	673.1	548.3	345.1	404.1	-22
Industrial & dental	461.7	435.6	-6	116.0	117.6	112.2	89.7	78.8	93.1	-21
Electronics	310.6	292.7	-6	80.5	81.3	76.4	54.5	50.2	60.4	-26
Other Industrial	93.2	86.9	-7	21.3	22.2	22.0	21.5	15.8	20.2	-9
Dentistry	57.8	55.9	-3	14.3	14.1	13.8	13.7	12.8	12.5	-11
Identifiable Investment	685.9	1,183.0	72	170.7	151.9	420.1	440.2	600.0	222.4	46
Net retail investment	432.5	862.1	99	98.1	147.9	270.6	345.6	134.9	165.7	12
Bar Hoarding	236.5	391.8	66	49.4	92.2	126.4	123.9	-33.1	59.4	-36
Official Coin	137.0	191.3	40	28.6	36.5	61.8	64.4	72.9	59.2	62
Medals/limitation Coin	72.6	69.6	-4	10.7	14.5	25.0	19.4	2.4	8.3	-43
Other identified retail invest. ³	-13.6	209.3	...	9.3	4.7	57.4	137.9	92.7	38.7	720
ETFs & similar products⁴	253.3	320.9	27	72.7	4.0	149.5	94.7	465.1	56.7	1315
Total identifiable demand	3,551.9	3,804.4	7	733.4	787.3	1,205.4	1,078.3	1,023.9	719.5	-9

Source: www.gold.org

East Asia, the Indian sub-continent and the Middle East accounted for 72% of world demand in 2007. 55% of demand is attributable to just five countries - India, Italy, Turkey, USA and China. India is the world's largest gold consumer, followed by China.

Demand for gold, including jewellery, industrial, and investment demand has broadened in recent years. In China, which has overtaken the US as the second largest retail market, jewellery demand ruled strong in 2007. In 2007, the total demand has overtaken the total supply.

World Gold Markets

- London: London Bullion Market Association (LBMA). It is world's biggest market

major clearinghouse of gold.

- New York: New York Mercantile Exchange Commex Division (NYMEX) begins trading on 31st December 1974. It is mainly considered as “home of futures trading”
- Zurich: It is also one of the major spot and future market in Europe mainly known as a “Physical Turntable”.
- Istanbul: Istanbul Gold Exchange begins trading on 26th July 1995. Major gold spot and futures market are in Turkey and Middle East.
- Dubai: Dubai Gold & Commodities Exchange (DGCX) begins trading in June 2005. Major spot gold market for Saudi and gulf countries. It is also one of the famous jewelers market.
- Singapore: It is doorway to South East Asian consuming countries major spot and future market.
- Hong Kong: It is doorway to China, now one of the major gold consuming country in the world.
- Tokyo: Tokyo Commodities Exchange (TOCOM) begins trading on 23rd March 1982, major spot and future market in Japan.
- Shanghai: began trading on 26th July 1995. It is one of the major future centers in China.

Units of weight

Around the world, bars can be denominated or traded in different units of weight to accommodate the preferences of regions or countries. The most prominent units are the gram (international), troy ounce (US, UK and Australia), tola (Indian subcontinent and Middle East), tael (Hon Kong and Taiwan), baht (Thailand) and chi (Viet Nam).

Seize the right opportunity

Domestic Scenario

India is arguably the largest bullion market in the world. It has been until now, the undisputed single-largest Gold bullion consumer, with its own final demand outweighing the next largest market – China by almost 57 percent. But it seems now, that the Chinese Gold buyers have caught up during 2008 as Chinese demand is surging rapidly (up by 15 percent year-on-year). Indian demand fell as Indian Gold sales collapsed by about 65 percent in the year 2008. In spite of being the largest consumer of gold, India plays no major role globally in influencing this precious metal's pricing, output or quality issues.

India's total gold holdings are between 10,000 tonnes and 15,000 tonnes of which the Reserve Bank of India has only around 400 tonnes. India has the largest number of gold Jewellery shops in the world.

Major Gold Mines in India

There is a huge mismatch between demand and primary supply in India, the balance being made up by imports. The only major gold mine currently in production is the Hutti mine, owned by Hutti Gold Mines Company Limited, which produces around 3 tons of gold a year. Hindustan Copper also produces some gold as a by-product.

Gold Production in India

Table 3: Production in recent years (in tons):

State	2005-06	2006-07	2007-08*
Karnataka	2.846	2.334	2.831
Jharkhand	0.201	0.154	0.027
Gujarat (by-product)	6.710	10.335	9.135
Total	9.757	12.823	11.993

Source: www.pib.nic.in

* p- provisional

As given in the above table, gold production in India is ruling lower in recent years. Karnataka was the leading producer of this precious metal with the output ranging from 2 to 3 tons per annum during 2005-06 and 2007-08. Jharkhand also produces small quantity of

gold.

Gold Demand in India

Gold, the ultimate safe haven in troubled times, remained the hot commodity throughout the year. It scaled new heights in the global markets and in India, which is the largest buyer of the metal.

Table 4: Gold Demand in India vs World (Tonnes)

Year	India	World	% Share of World Demand
2004	617.7	2961.5	20.86
2005	721.6	3091.9	23.34
2006	721.9	2681.9	26.92
2007	769.2	2810.9	27.36
2008 ^P	660.2	2906.8	22.71

Source: GFMS

* provisional

Indian demand for Gold accounts for on an avg. 25% share of world gold demand. In 2008, demand for gold has decreased in India because of high price amid global financial crisis.

Gold Imports in India

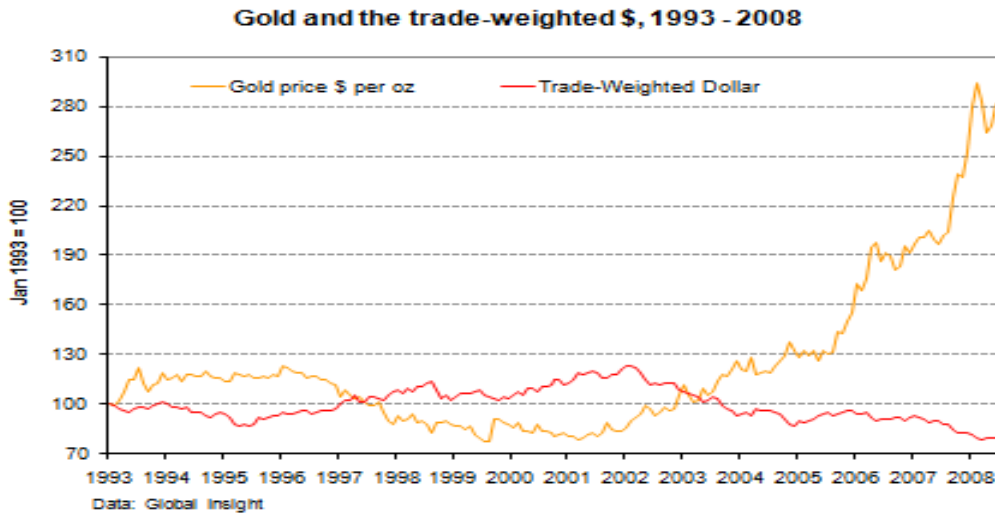
India imports around 500-800 tonnes of gold on an average every year. In 2008, India's gold imports dipped by 45 per cent to touch 450 tons. However, buying of gold Jewellery has fallen sharply in January, February & March month of the year 2009, leading to a slump in the yellow metal's imports.

Gold Prices

There are many factors, which affect the gold prices in domestic as well as international market. However, it is highly correlated with the US dollar, the world's main trading currency. Gold has long been regarded by investors as a good protection against depreciation in a currency's value, both internally (i.e. against inflation) and externally (against other currencies). Gold is widely considered to be a particularly effective hedge against fluctuations

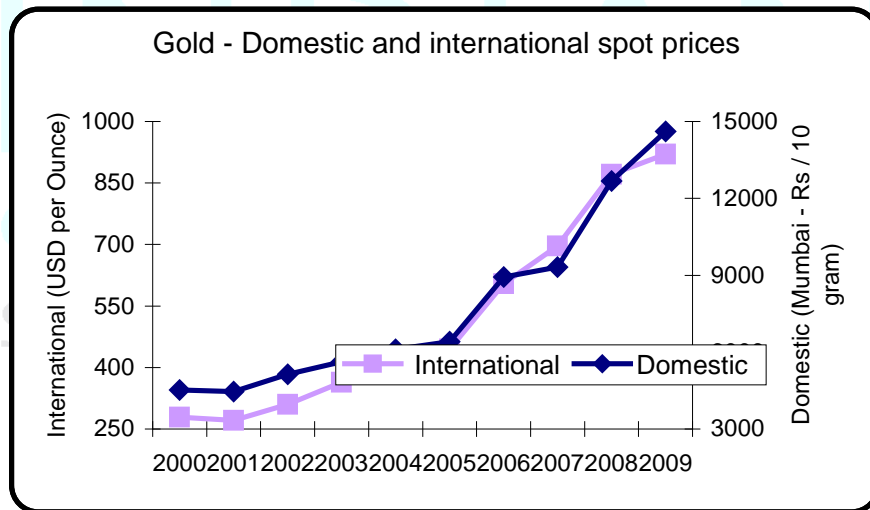
in the US dollar, the world's main trading currency.

Fig 2: Gold Price vs Dollar Movement



The gold price has been found to be negatively correlated with the US dollar and this relationship appeared to be consistent over time. It is a consistently good protection against the economic instability and the exchange rate fluctuations.

Fig 3: Gold Prices in Domestic & International Market



Note: Average price from Jan to Aug for 2009

Gold prices are skyrocketing over the years both in the national and international markets. However, the price increase in the national market was significant during the current year as average price (till end of Aug '09) ruled at about Rs.14,600 per 10 grams compared with the annual average of Rs.12,670 per 10 grams in 2008. With this, the market has witnessed price appreciation of about 15% compared with merely 5% international market for the same period, which could be mainly linked to the currency factor.

Factors influencing Gold Prices

- World macro economic factors including US Dollar, interest rate and so on
- Global gold mine production
- Demand by Central banks
- Domestic demand, which is linked to agricultural prosperity and festivals/marriages etc
- Producer / miner hedging interest
- Comparative returns on stock markets
- US dollar movement against other currencies
- Indian rupee movement against the US dollar
- Geopolitical tensions
- Global economic situation

References

- GFMS
- World Gold Council (WGC)
- International Monetary Fund (IMF)

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