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**Headline: Gold loses sheen....appliances**

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**Coverage –**

## Gold loses sheen as rural India lines up for appliances

■ Appetite falls on high prices ■ China could top India's consumption in 4-5 years

Mumbai, Dec 16: India's gold demand will take a hit as increasingly prosperous rural consumers switch to other investment options and step up spending on discretionary items, setting the stage for China to overtake its neighbour as top consumer of the metal.

The Indian buyer has traditionally invested in gold as a hedge for bad times, but with prices of the metal soaring and a wave of strong economic growth swelling the country's middle class, demand for consumer durables and appliances has spiked.

Gold prices in India, which imports all of its metal in the absence of major domestic mines, hit a record high of Rs 20,924 per 10 gm

(\$463) on December 7.

"People in the rural areas are looking to diversify their portfolio to seek better returns," said Prithviraj Kothari, head of trade body the Bombay Bullion Association, which has 400 members.

With prices so high and banks giving an interest rate of 8.5% on deposits, they would prefer to buy other items, added Kothari. Gold sales would take a hit.

Demand for gold from rural areas that account for about 70% of annual consumption, which averages 550 tonne, is likely to fall to 50% in coming years, industry watchers say.

"With the government keen to make more savings avenues available, rural con-



Customers buy gold jewellery at a jewellery shop in Mumbai

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sumers would consider the newer instruments, taking away money from gold," said Pinakin Vyas, assistant vice-president with Indusind Bank, a large gold importer.

By March 2012, RBI aims to have a bank branch or roll out access to financial services in all villages more than 2,000-strong, its chief Duvvuri Sub-

barao has said, potentially diverting savings away from the precious metal.

"Rural consumers are now more aspirational in their discretionary purchases. Sales of automobiles and consumer durables rose 38.8% in the period from April to September, outstripping gold sales, which grew

by a meagre 14.8%.

Makers of consumer durables and car producers have all turned their attention to the rural buyer in a bid to diversify their customer base outside fast-saturating urban markets.

"Sales of large domestic appliances and cars have grown exponentially and this was seen during Diwali itself, while gold sales have not kept pace with this rise," said Daman Prakash, director, MNC Bullion.

Volumes have been stagnant due to record high prices. I am at a loss to understand how to compete with lucrative offers made by makers of domestic appliances to entice customers.

Demand from India is

stagnating. If we look at historical numbers, we could very well see China taking over India's position in 4-5 years, said a source at an international exchange, which overlooks gold business in China and India.

In the six months to September, China's gold consumption recorded a 45% surge to 273.7 tonne, while India's gold demand grew 28% to 394 tonne. "It's easier for the Chinese to buy gold as a form of investment as (China's) local bonds and equity markets are not evolved and Chinese banks offer attractive gold investment products," said Sunil Kashyap, regional head of global capital markets at Scotia Capital in Hong Kong.

Reuters

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