

## Coverage-

### Diwali sets gold buyers alight in India

*Record gold prices did not dampen consumer demand for gold in the festive week of Diwali as part of the gains from a buoyant stock market and other investments were apportioned to gold*

Author: Shivom Seth

Posted: Wednesday , 10 Nov 2010

MUMBAI -

In India, a welcome start was given to Samvat 2067, when gold and silver prices jumped to an all-time high. On Dhanteras, the country's busiest gold buying day, celebrated on November 3, and Diwali on November 5, when demand for the yellow metal peaked, Indian consumers couldn't get enough of gold.

Samvat is a Hindu calendar. Since there are various calendars in use in India, Samvat denotes the passage of time. On a certain day in the Samvat year, especially during Diwali, consumers consider it auspicious to buy gold and make an offering to the Gods, which many believe invokes lasting prosperity.

And so it was on this Dhanteras, But given the high prices of jewellery, consumers concentrated their buying on small coins.

On Dhanteras, gold peaked to an all-time high Rs 21,500 per 10 gram. Many Indians brushed this aside. Standard gold (22 carat) - the benchmark in jewellery - staged a fiery comeback after a brief lull in the Mumbai market. After all, it was a question of investing in tradition.

Jewellers in several of Mumbai's suburbs, such as Goregaon in the West and Thane in the East, claimed to have run out of gold and silver coins of smaller denominations during Dhanteras.

Harsh Kotamalbhai Zaveri, owner of a jewellery store in Thane said gold coins sold by banks during the days preceding Diwali had run short. "Customers walked in saying no gold was available at certain bank branches."

Banks in India sell gold coins, which is a safer way to buy them. Purchasing bullion at the bank assures the consumer of getting the right exchange rate. Since the retail price of gold changes every day, a purchase from the bank is based on the current spot price.

"We went out of stock by late evening," continued Zaveri, "which was a very satisfying emotion at one level, given the auspiciousness of the day, and frustration at the other level, with more customers streaming in even later in the evening, asking for coins which we could not supply."

He went on to add that sales figures of gold and silver coins shot up by more than 60% due to Dhanteras. People turned up in droves, especially during the evening, to buy gold and silver tokens.

"Gold's appeal has broadened. It is not that gold has changed, but gold buyers have changed," said Shyamal Mehta, a precious-metals dealer in South Mumbai. "We are witnessing a structural shift on the investing side, with individual investors buying ingots and coins this Diwali."

Gains due to disparity

Interestingly, given the sharp spike in gold prices, a situation of disparity was created between the gold prices charged by banks and local market prices. Banks charged a gold rate of Rs 20,770 a tola, (per 10 gram), a couple of days before Dhanteras, with several high profile customers being offered a discount. The need was so great that many kept getting repeated calls about the discounts on offer by banks.

"We have very little stock left. We ran out on smaller denominations coins," confirmed an official with ICICI Bank, which offered coins and bars embossed with images of Hindu diety Ganesha and Goddesses Lakshmi and Saraswati. Although coins account for a small part of the market, they are one of the best indicators of investor sentiment towards the precious metal. And right now gold is in massive demand from investors who see it as the ultimate haven and as one of the best hedges against a possible resurgence of inflation.

However, since there was a Rs 85 jump from the previous day, this roughly translated into an overnight increase of Rs 8,500 a kg. According to reports, market rates in different parts of India were quoting at a Rs 1,500-1,900 discount to bank rates.

Moreover, the overnight high ensured that some big investors and bullion traders offloaded kilo gold bars in the market and made a killing.

"Big investors who had purchased gold when prices were around Rs 19,600 a tola, turned net sellers at Rs 20,600," said Sarvashreshtha Kothari of Mumbai-headquartered Kothari Bullion Bros, one of the oldest bullion dealers in the business. "During the week of Diwali, kilo bars were available in the market at a discount of Rs 17,000 to the bank rate. Now, who wouldn't want to buy gold at a discount, especially during Diwali."