

## 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*

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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."

On Dhanteras, the traditional start to the four days of Diwali, consumers also buy gold or silver to ward off evil. The country takes its cue from her business communities, the Gujaratis, Punjabis and the Marwaris who flock to jewellers. Certain communities in South India even time their visit to the jeweller, so as to buy the yellow metal during an auspicious, holy hour and derive the maximum benefit all through the next year.

“Consumers are ensured of high returns as compared to what banks offer and ready encashability [sic] with gold and silver. This has led to imports by banks rising 34% in October to 43 tonne from a year ago, while imports in the festive week have risen about 25% to 20-25 tonne even as the price has risen by 28% to Rs 20,119 since last Diwali,” said Prithviraj Kothari of the Bombay Bullion Association.

Prashanth Shah of Krisandas Gems added: “People continued to buy gold on Saturday too, though it was a blank day, after Diwali and before the New Year on Sunday. I would say the number of people buying gold in between the auspicious days is the same as last year, despite there being a steep rise in the gold price. Customers are also aware that prices were likely to go up on Sunday, given the New Year celebration,” he added.

For Karan Jethwani, director of Meenason Jewellers, business was very good. He pointed out that there are predictions that gold will go up to Rs 23,000 a tola soon. “To combat this, our customers booked and bought their gold from us a week in advance. They will then collect their ornaments and coins either on Dhanteras or on Laxmi puja day, (when the Goddess of wealth is revered and paid obeisance to), as in India, the custom is to bring gold into the house on that day.”

Interestingly, the World Gold Council (WGC) said on Friday that a total of 56 tonnes of gold was sold in India during the Diwali week, which is a huge jump over last year. However, since there is no established agency which gathers the gold buying and selling during Diwali, it was difficult to tabulate it against last year's sales.

Traders also mentioned November 3, when the US Fed announced that it would buy back treasury bonds worth \$600 billion over the next eight months to boost the US economy. “This immediately led to a depreciation of the dollar against almost all major currencies, including the rupee. The recent run-up in gold prices is exclusively dollar-driven,” said a commodity analyst Mahesh Trivedi, with brokerage house Karvy Consulting Trade.

Correction on

Post Diwali though, a severe correction has come into the scene. “Demand is down by at least 40%,” said Haresh Kewalramani of the Bombay Bullion Association, “and people are waiting for a correction. But this time, it will have to be a big enough correction for consumers to enter the market again.”

Added Ketan Tejas of Mumbai-based Pushpak Bullions, “Demand will be a little slow, post Diwali. There is not much buying happening now as the festival has come to an end and most marriage purchases have already been done.”

Indians also buy gold during the marriage season which accounts for the other bulk purchases. Many traders however do expect demand to continue beyond this week and until December. Adequate monsoons has also boosted income in rural areas, which accounts for 60% of the country's gold demand.

Other important factors that are supporting the prices, traders state is that institutional investors are pouring billions into bullion-backed exchange traded funds. India is the world's largest gold buyer and traditionally the best barometer of gold demand.

“High price makes a big difference,” said Rajendraseth Gurjarmal, who runs a jewellery shop on Mumbai's wealthy Colaba Causeway. “We won't see many people coming in while prices are at these levels.” Instead, Indians are buying cheaper silver.