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Coverage –

Record gold spike leads to disparity in market

Bank Rates, Domestic Prices Differ; Investors Offload Bars

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A SHARP spike in gold prices has created a disparity in the gold prices charged by banks and local market prices. Gold rate charged by some banks on Tuesday was ₹20,770 a tola, up ₹85 from Monday's rate. This amount is significant as it translates into an overnight increase of ₹8,500 a kg. Market rates in different parts of the country are said to be quoting at a ₹1,500-1,700 discount to bank rates.

The sudden spike caused some big investors and bullion traders to offload kilo gold bars in the market with the price target being achieved by the overnight jump. In some places like Chennai, bullion dealers are buying kilobars from these traders at a discount of ₹3,000-5,000 to the market price of ₹20.43-20.45 lakh.

"Big investors who purchased when prices were around ₹19,600 a tola have become sellers at ₹20,600," said Ashish Mundhra of Chennai-based Mundhra Bullion, one of the oldest bullion dealers in the business. "Currently, kilo bars are available in the market at ₹17,000 discount to the bank rate."

Gold in the international market surged to an all time high of \$1422.35 an ounce on sovereign default fears in Europe as some governments struggle to pay back bond holders. Indian banks, which import gold on a consignment basis, charge a premium of \$125 an ounce to the prevailing international rate. However, once scrap gold begins to flood the market, jewellery makers and traders prefer buying from the markets rather than from banks because of the discounted rates.

Prithviraj Kothari, president of Bombay Bullion Association, said there was parity for the most part of this year with people buying from banks and selling in the market. However, now, with the spike in prices, the same persons would buy gold from the market and sell it on local commodity bourses or to other bullion traders. "So far there has been parity in bank and market rates, but with recycled gold flows set to increase there will be a disparity," he said.

However, a bullion dealer at a leading public sector bank said that disparity typically tended to narrow in a short span of time because of a fall in demand. "When the gold price shoots up sharply, we expect scrap or old gold sales to rise but there is no guarantee that dealers would purchase scrap to the same extent of the inflows as consumer demand tends to slow down during sharp volatility. Since most retailers buy only when they sell, the fall in demand would bring parity back between bank and market rates," he explained. Kumar Jain, a jewellery retailer from Mumbai's Zaveri Bazaar confirmed that demand had slowed down because of the sharp rise in prices. "Rates are really high for consumers who have stayed away from the market," he said.

MARKET MANIA
Currently, kilo bars are available in the market at ₹17,000 discount to the rates offered by banks

