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Coverage Page:

The screenshot shows a Mozilla Firefox browser window displaying the Economic Times website. The article title is "Bullion trade: Dealers demand cash for gold; avoid cheque payment to safeguard against default". The author is Ram Sahgal, ET Bureau, dated Aug 18, 2011, 06:07am IST. The article text discusses the bullion market in Mumbai, where dealers are demanding upfront cash for gold to avoid default in case of a price crash. It mentions that gold prices hit a record of Rs 26,416 per 10 gm on Tuesday in Mumbai, due to a weaker rupee and a rise in the overseas gold rate. The article also includes a quote from a leading bullion dealer about the risks of credit in the market. The website interface includes navigation menus for Home, News, Markets, Personal Finance, Tech, Jobs, Opinion, Features, Environment, Travel Deals, Blogs, and ET NOW. There are also social media sharing options for Twitter, Facebook, and a Submit button.

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THE ECONOMIC TIMES

Bullion trade: Dealers demand cash for gold, avoid cheque payment to safeguard against default

Ram Sahgal, ET Bureau Aug 18, 2011, 06.07am IST

MUMBAI: As gold soars to new highs with increasing regularity, bullion dealers across the country's gold markets are demanding upfront cash from small and mid-level jewellers to avoid a possible default in case prices crash. If a client books gold at a present rate for later delivery and if prices fall in the interim, it could induce the former to default, putting the dealer at risk.

"Trust is the catchword in the bullion market, but with gold having entered uncharted territory it is advisable to give delivery against full cash payment rather than through cheque or on credit," said a leading bullion dealer. "While there have been no problems in the market so far, if prices crash from the current level, chances of default cannot be entirely ruled out." Gold priced hit a record Rs 26,416 per 10 gm on Tuesday in Mumbai, mainly because of a weaker rupee and a rise in the overseas gold rate.

While jewellers source gold from banks which import on a consignment basis against cash or margin payment or through metal loan against bank guarantee, many opt to buy the metal from bullion dealers, especially if they get a better rate than what a bank quotes or when there is a disparity between market and bank rate because of inventory pile-up or excess scrap sales. Since it is private, the deal between a jeweller and a bullion dealer can be different from the one with a bank in that the two could agree upon cheque payment or on credit if the parties are known to each other. Now, many are giving delivery only against cash, increasing margins for delivery at a later date or are taking full cash at the time of booking itself to cover themselves against a likely default.

Leading bullion dealer Riddi-SiddhiBullions (RSBL) has raised the margin deposit kept with it by its clients to Rs 1.5 lakh from Rs 50,000 recently. "An increase in the margin deposit was necessitated the way prices have been moving recently. The margin can be brought down if prices stabilise," said Prithviraj Kothari, MD, RSBL, which services clients from 400 towns through its spot platform, RSBL Spot, where jewellers can place orders for and take delivery of gold bars on a T+2 basis. The deposit acts as a disincentive for clients to default.