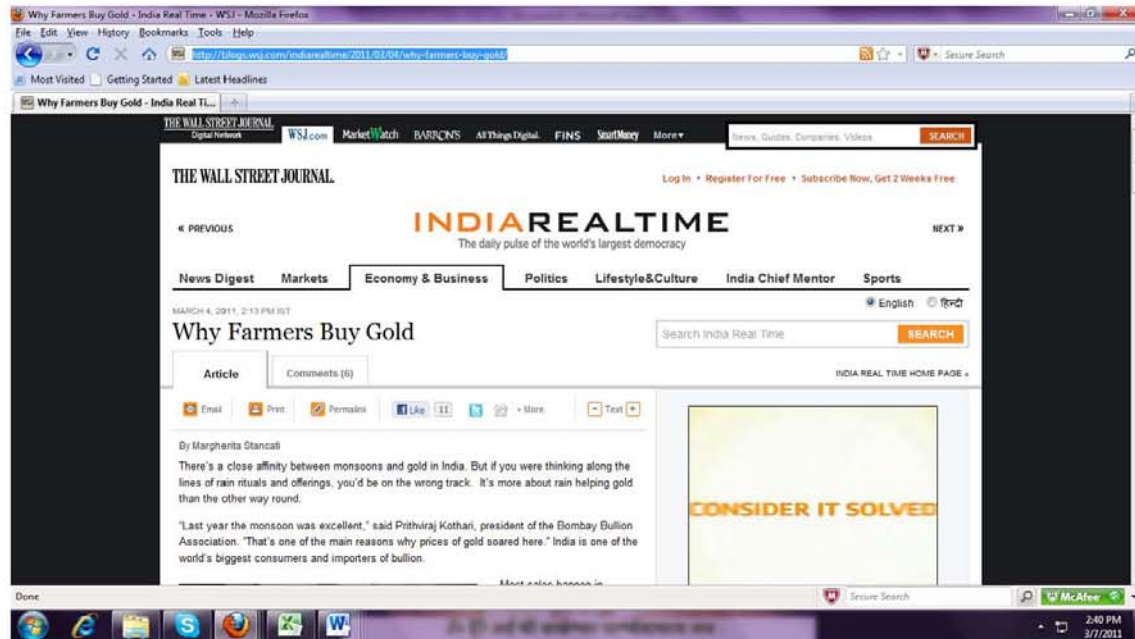


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Why Farmers Buy Gold

By Margherita Stancati

There's a close affinity between monsoons and gold in India. But if you were thinking along the lines of rain rituals and offerings, you'd be on the wrong track. It's more about rain helping gold than the other way round.

“Last year the monsoon was excellent,” said Prithviraj Kothari, president of the Bombay Bullion Association. “That’s one of the main reasons why prices of gold soared here.” India is one of the world’s biggest consumers and importers of bullion.



Margherita Stancati/The Wall Street Journal

Mr. Soni, pictured, weighed gold in his workshop in Rajnagar on Sunday.

Most sales happen in workshops like that of Pranood Soni, a 48-year old goldsmith from Rajnagar, a dusty village in Madhya Pradesh state just a few kilometers outside Khajuraho, famous for its world heritage temples. Mr. Soni’s customers come predominantly from the surrounding countryside and nearby villages.

“Most of my clients are farmers,” said Mr. Soni, handling molten gold as he sat crossed-legged in his workshop. He is just one of the many jewelry artisans who set up shop in Rajnagar.

By far the biggest buyers of gold in India are farmers, who almost exclusively invest in gold and, to a lesser extent, in silver. According to the Bombay Bullion Association Ltd., around 70% of gold and silver is bought in rural areas.

A lot of it has to do with popular customs. “There’s a widespread belief [in rural communities] that the price of gold and silver will always go up,” says bullion expert Bhargava Vaidya, the director of B.N. Vaidya & Associates. Many farmers invest in precious metals also because few can or want to have a bank account. “They don’t trust banks, they trust their jeweler,” Mr. Vaidya added.

The fact that gold and silver prices have gone up between 20%-30% year-on-year for the past few years has added credit to the view that gold is the best investment, Mr. Vaidya said.

In Rajnagar, Mr. Soni said the busiest times of year for him are the winter months, when weddings are most common. “When the wedding season arrives, demand goes up. When the season ends, it is lower,” he said. For the brides-to-be, people typically order things like necklaces, earrings and nose rings from Mr. Soni. He said he’s been charging buyers 22,000 rupees per 10 grams for the past few months, a period that coincides with the wedding season.

This is the case across most of India, where gold and silver are considered not just auspicious but a must-have for Hindu brides. This makes weddings central to India's gold market. "The wedding season is key for domestic demand," said Mr. Kothari of the Bombay Bullion Association. He estimated a total of around 300 tons of gold are bought every year for Indian weddings.

Few weeks go by without silver and gold hitting all-time highs. Last week the price of gold in Mumbai's bullion market, India's largest, hit a record high of 21,065 rupees for 10 grams and earlier this week, silver prices similarly skyrocketed.

But weddings and the age-old belief that the price of gold will go up, means demand in rural India is likely to stay high.

Mr. Soni says that despite soaring prices, sales in his shop have been in line with previous years. But he added that sales patterns among lower-income farmers have changed. For many of them, gold is too expensive, so they are turning increasingly to silver.

"Before they used to buy only gold but in the past three years since gold has become more expensive they also buy silver," said Mr. Soni. Others, including richer farmers, still prefer gold, he added.

But domestic demand is just one of the factors affecting the prices of gold and silver in India. The market is a global one. Geopolitical tensions, inflation, and exchange rates are just some of the factors that have also contributed to rising gold and silver prices, said Mr. Kothari.