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Headline: Gold loses pricey tag; lures investors, buyers

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Coverage

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Gold Loses Pricey Tag, Lures Investors, Buyers

Precious metals slide as investors across globe sell them to cover losses in other assets

Demand Rises as Prices Plummet

FALLING PRICES TRIGGER A rise in domestic demand with gold down by 6% and silver having slumped by 18%

COMEX, THE LEADING futures market for metals trade. Increased margins on gold, silver and copper effective Monday close

A RISING FEAR FACTOR coupled with sinking confidence levels should be helping gold

BUT THIS ISN'T HAPPENING because of overriding concerns about liquidity

Precious metals collapsed for the fourth consecutive day in the domestic market in the wake of price cues from global markets, where investors sold gold and silver to cover losses in other assets and leading futures exchange Comex raised margins on gold and silver.

This, according to a jeweller and a leading bullion dealer, has triggered a rise in domestic demand with gold down by a little over 6% and silver having slumped by 18% over the same period through Monday.

European policy makers are facing mounting pressure to step up efforts to prevent their sovereign-debt crisis from further roiling the world's financial markets and economy. European Central Bank policy makers are likely to next week debate restarting their covered-bond purchases along with further measures to ease monetary conditions, a euro-region central bank official said.

"A rising fear factor coupled with sinking confidence levels should be helping gold, but this isn't happening because of overriding concerns about liquidity, European bank funding and margin calls amid a stronger US dollar," UBS AG analyst Edel Tully said in a report on Monday. "For now, investors are only finding comfort in the relative safety of cash."

Back home, a Kolkata-based retail jeweller said while demand for bullion had increased because of the correction, there seemed to be a slight supply problem in silver with dealers charging a huge premium over the bank rate.

"The bank rate at 7 PM IST on Monday for a kilo of silver was Rs 48,500 while, bullion dealers in the local market were quoting Rs 53,000. They are citing problems of procuring silver from banks, which seem to be reluctant to sell silver at these rates. This happens because of volatility and it is therefore better if the government allows imports of gold under open general license rather than through over two dozen nominated agencies," said Bachhraj Bamalwa, a retail jeweller and chairman of gems and jewellery trade body GJF.

In dollar terms, gold slipped by 7% to \$1619.3 an ounce (31.10 grams) while silver plummeted 20% to \$28.72 since last Thursday after Comex, the leading futures market for metals trade, increased margins on gold, silver and copper effective Monday close and the dollar strengthened against the euro, which has slid on the back of sovereign problems in Greece, Italy and Portugal. Over the same period, gold in Mumbai, the country's precious metals trading hub, shed 6.4% to close at Rs 26,487 per 10 gm while silver slumped by over 18% to close at Rs 52,343 a kilo in Mumbai.

"The price fall has triggered buying by jewellers and investors alike, who see it as a good opportunity to accumulate the metal," said Karan Vasa, associate vice president, RiddiSiddhi Bullions. Vasa added that markets were witnessing "panic selling" of silver as dealers and stockists chose to offload to cut further losses. Buyers, on the other hand, who had seen prices fall from Rs 75,000 to Rs 50,000 a few months ago only to rise again to Rs 64,000, have entered markets on hopes to profit from a likely rise, he added.