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The Rich Gets Richer Offloading Yellow Metal Bars

Asset yields 30% in less than two months; the current churn allows investors a major price arbitrage opportunity

RAM SAHGAL
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The common man may be fretting over high gold prices but at least one class of buyers is not complaining. Savvy investors who purchased gold bars barely two months ago are laughing all the way to the bank, and not just that—recent price volatility has enabled them to buy back bars they sold a few days ago at lower prices, opening up the price arbitrage window.

The other beneficiaries of such bar sales are bullion dealers who buy them at a lower rate than what neighbourhood banks charge them. The Reserve Bank of India (RBI) has authorised around 32 state-owned, private and foreign banks to procure gold bars from overseas on consignment basis and sell them in the local market.

The local bank recovers customs duty and a nominal commission from the purchasers before remitting the funds to the overseas suppliers.

"Bullion dealers across the country are able to buy gold from local markets at a discount to the bank rate because investors are booking profits at current levels," said Vasu Acharya, director, Ahmedabad-based Parker Bullion. "Till Tuesday, gold locally was available at a ₹200 discount to the bank rate."

India is a price taker in gold, its price being determined in overseas markets like New York and London.

While the commodity has been rising for the past decade, the rally has intensified this year because of spreading sovereign debt issues in the 17-member Eurozone and fears of the US economy slipping into another recession.

Local gold prices adjusted for currency fluctuations have reflected this move.

For instance, gold in Mumbai has jumped 30% since July 1 to a closing high of ₹28,451 per 10 gm on Tuesday. That translates to a staggering ₹6.6 lakh rise on a kilo in just 51 days. Retail demand for kilo and 100-gram bars comes mainly from the rich and super rich or the so-called HNIs and ultra HNIs.

Karan Vasa, associate vice president, RiddiSiddhi Bullions, a large bullion dealer, which also sells bars and coins to rich clients, said, "At current price levels, we are seeing investors selling their bars to book profits. Moreover, as and when there is a market dip, we have seen investors buying bars. Such a trend is currently ongoing in the market." Vasa claimed gold would rise to ₹30,000 per 10 gram by Diwali.

An official of a PSU bank, which provides gold on consignment basis, termed the disparity as a temporary phenomenon caused by sale of bars and jewellery by consumers when prices rose. However, he said demand trends had not changed "significantly" at his bullion branches.

While gold has remained volatile for some time now, prices came off after the Swiss central bank announced a cap on the Swiss franc at 1.20 to the euro and said it would buy foreign exchange in unlimited amounts to hold this level. This has precluded a further plunge in the euro and strengthened the dollar, which moves inversely to gold.

In Mumbai, the standard gold (99.5 purity) slumped ₹680 per 10 grams to close at ₹27,490 from Tuesday's closing level of ₹28,170. Pure gold (99.9 purity) also fell ₹680 per 10 gms to finish at ₹27,620 from ₹28,300.

Reflected Glory

'Buy high and sell higher' is savvy investors' mantra

- ▶ **Gold has jumped 30% since July 1 to a closing high of Rs 28,451 per 10 gm on Tuesday**
- ▶ **That translates to a staggering Rs 6.6 lakh rise on a kilo in 51 days**
- ▶ **Savvy investors who bought gold bars two months ago are laughing all the way to the bank**
- ▶ **Price volatility has enabled them to buy back bars they sold a few days ago at lower prices**

Gold	Silver
Price 1,841.52	Price 41.415
Change -1.8%	Change -1.4%

Palladium	Platinum
Price 748.75	Price 1,836.75
Change -0.5%	Change -0.9%

Prices in \$/ounce

It wouldn't surprise me if it went down... because it would make the long-term trend more sustainable

WILL SMITH
co-manager, City Natural Resources Trust, London

