

Making of jewellery from scrap gold may surge as prices rise

Banikinkar Pattanayak
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AS gold prices hover near record levels, consumers have resorted to remaking jewellery from scrap gold in an unprecedented way, driving down imports of the precious metal, top industry executives said.

The remaking of jewellery from scrap gold is expected to rise three fold to a whopping 300 tonne in the fiscal year through March, Prithviraj Kothari, president of the Bombay Bullion Association, told FE.

Any fall in gold imports would augur well for the country's current account deficit, which shot up to 4.2% of the gross domestic product in the fiscal year through March 2012, compared with 2.7% a year before. The Prime Minister's Economic Adviso-

ry Council expects the current account deficit at 3.6% of the GDP in the current fiscal, anticipating a slump in gold imports.

India, the world's biggest gold consumer, barely produces any gold and usually imports to meet its ravenous appetite. Gold imports rose

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more than 10% in the last fiscal to 1,067 tonne on soaring investment interest due to its status as a safe-haven asset and a hedge against inflation, although the purchases from overseas tumbled in the last quarter due to record prices.

"A sharp depreciation of the rupee and the doubling of import duty on gold in the Budget 2012-13 to 4% have driven up domestic prices of the

precious metal to near-record levels. On top of it, poor rainfall so far has raised fears of a fall in rural income. These have prompted consumers, mainly in rural areas, to use scrap instead of buying fresh gold to make jewellery by offering only making charges," Kothari

said. The rupee has depreciated by 9.2% so far this fiscal and 21.3% in the past one year, making overseas purchases more expensive.

The metal hit a record ₹31,400 per 10 gm in Mumbai on Saturday, although it pared down some gains on Monday to settle at ₹31,200.

"The use of scrap gold for jewellery in a big way indicates demand is still robust,

although the mode of supply has changed. Instead of buying fresh gold, consumers are using scrap gold to make jewellery. But when the situation improves, re-stocking of gold may take place," Ajay Mitra, managing director (India & the Middle East) at the World Gold Council. "Although gold imports may fall in the near term, the prospects are still bright for the longer term," he added.

The Council expects gold imports by India to fall to 650 to 700 tonne in the calendar year 2012, compared with 963 tonne a year before, Mitra said. Gold climbed for 11 straight years since 2001, led by robust consumption in India and China, and soaring central-bank buying.

The average gold price rallied 28% in 2011 to \$1,571.52 per troy ounce, although domestic prices surged by 32% due to a weak rupee.