A Study on Gold Trends: India vs China

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ABSTRACT

Indians consider the yellow metal as an object of luxury believed to be worthy for only gods and rulers. The metal is a symbol of wealth, supremacy, beauty, and cream of the crop and holds immense religious magnitude in Indian culture. gold is conventionally considered a good inflation hedge and during times of inflation the price is likely to rise. Gold investment is important in India. The Gold Monetization Scheme, as introduced by the government of India, aims to monetize gold so that it earns interest. The objective was to mobilize gold held by households and institutions in the country and put them to productive use. This paper elaborates a study of gold trends in India vs. China.

Key words: Gold trends, Gold Monetization Scheme, Inflation, Mobilize

Introduction

Indians consider the yellow metal as an object of luxury believed to be worthy for only gods and rulers. The metal is a symbol of wealth, supremacy, beauty, and cream of the crop and holds immense religious magnitude in Indian culture. Indians are known for their love for gold . Gold is equally viewed as a safe, protected investment; an exclusive way to preserve their wealth. Investors have considered gold as one of the best sources of value due to its durability, easily movable and universally acceptable, and therefore one of the safest avenues of investments in the world. Additionally, gold is conventionally considered a good inflation hedge and during times of inflation the price is likely to rise. Gold investment is important in India. As inflation increases the currency value decreases. Nearly every global currency has depreciated in value compared to gold over the long term. Therefore people tend to keep gold-shaped money. Gold is one of the few tangible assets and so it provides a sense of security among investors. This is much cheaper to purchase gold compared to purchasing other financial assets like real estate. Gold investments can be liquidated much more easily than other financial assets, such as real estate. Unlike several other assets gold investments do not have a lock-in duration except for sovereign gold bonds. The Gold Monetization Scheme, as introduced by the government of India, aims to monetize gold so that it earns interest. The objective was to mobilize gold held by households and institutions in the country and put them to productive use (Ref. 1). Sovereign Gold Bonds are Government securities denominated in multiples of gram(s) of gold. They are substitute for investment in physical gold. In 1999, the Gold Deposit Scheme (GDS) was implemented to enable Indian consumers to deposit their gold against an interest-bearing account . The Indian Gold Coin (IGC) was launched on 5 November 2015, in accordance with the Gold Monetization Scheme (GMS) and the Sovereign Gold Bonds Scheme. Such coins are made of 24 carat gold with a fineness of 999 and are certified according to the BIS standards.

In 2010 the World Gold Council and ICBC introduced the first GAP in China. These products offer investors direct access to the real gold price backed by gold.

Physical Gold Leasing is a service provided to interested corporate clients to lease ICBC gold and pay RMB lease fees as agreed in the contract. When the contract ends, the lessee shall repay the gold of the same value. The gold offered for leasing is exchanged on the Shanghai Gold Exchange and shipped. Gold pledging is a lending service where ICBC-recognized precious metal can be used as a pledge. Two forms of pledges: Standard Precious Metal and Specific Gold under the ' Ruyi Gold' sequence.

Table 1: Gold Product and Services in IndiaReserves

Reserves	
1. Gold Monetisation Scheme	15650 kgs
2. Jewellery	25000 tonnes
3. Gold Deposit Scheme	46.7 tonnes
4. India Gold Coin Scheme	882.98 billion
5. Gold Accumulation Plan	61.61 million ounces
6. Exchange traded funds	145 crore

Table 2: Gold reserves in different countries

Sr. No.	Name of Countries	Tonnes	% of reserves
1	United States	8,133.5	76.9%
2	Germany	3,366.8	73.0%
3	IMF	2,814.0	1)
4	Italy	2,451.8	68.4%
5	Russian Federation	2,241.9	20.2%
6	China, P.R.: Mainland	1,948.3	2.9%
7	Switzerland	1,040.0	6.0%
8	Japan	765.2	2.8%
9	India	618.2	6.9%

Source: Indian Financial Statistics, December 2019

Table 2 Introduces the list of top 10 national gold reserves in December 2019. As can be seen from the above table the list remains heavily populated with Western countries that have not seen any major improvements in their gold reserves. On the other hand, China and Russia have been actively rising their gold reserves to the list with both countries tripling. The trend in accumulation of central banks is not confining China and Russia. Several smaller countries have also started to build up gold reserves. There are actually two major reported patterns in the reserves of central banks which are accumulation and repatriation. Most eastern central banks have stored gold for several years now and some western countries repatriate their gold reserves overseas.

Need of the study

In December, 2019 gold prices rose to the highest as weak US concerns about an interim Sino-US trade deal lent support to safe haven. Gold's appeal as safe haven asset increases in times of geo-political tensions. RBI appears to have started trading in gold actively. India has been buying gold sporadically since 2017, as in purchasing from open market. These are the signs of increase in Gold Reserves in India which is currently at the tenth position as mentioned in Indian Financial Statistics.

Aim

The aim of the research is to assess the success and failures of Gold products and services in India. The research also aims to provide suggestions to the Gold Investment Strategies of India.

Scope of Gold Investment in India

Gold is one of the most preferred investments by the people in India. Investors opt for investment in gold as it acts as a safe haven during financial crisis and it is also an inflation hedging tool. Investors may invest in gold by buying it in the form of physical or Gold ETFs . An investor may also deposit idle gold at home in the Government's Gold Monetisation Scheme, which is like a yellow metal fixed deposit. Under the scheme, investors can gain interest on the value of the initially deposited gold and also adjust the principal to the market rate during the investment period. The most popular way of investing in gold in India is buying gold jewellery. It is common for people across all economic classes to buy gold on festive and auspicious occasions. The Reserve Bank of India issues Sovereign Gold Bonds in tranches from time to time, in consultation with the Government of India. These bonds are a substitute for holding physical gold. Compared to gold jewellery, the advantage of gold bond is that it is free of charge. However, gold is not a very good investment. Investors shall take into account additional parameters such as liquidity, stability along with returns. The returns tend to be worse than other investments with same risk and volatility. The reason is that the gold does not create any value. The money that a person invests in gold does not contribute to economic growth compared to equity or bonds. Gold makes sense only for those who have no access to or no trust in the financial system.

Objective of the study

1. To analyze comparative Gold Trends between India and China.
2. To examine success and failures of Gold investment products and services in India.

Literature review

Nirupama Soundararajan, Arindam Goswami (April 2017) examine the gold as a safe haven for the people to preserve their wealth. It focuses on the gold demand and supply drivers in India and analyzed the Indian economy's contribution. The authors conducted a survey to determine the people's responses to initiatives aimed at monetizing gold. The paper also brief about the different investment products such as Gold Loans, Gold Deposit Schemes, Gold Savings Account. The paper highlights the government policy initiatives of the last six decades. The authors explained the gold policies undertaken by Turkey which lead to enhanced status on world gold stage. Also the policies undertaken by China making them the largest gold producer. The authors talk about formulating policies resulting to economic and fiscal advantage .(June 2018) The paper assessed the demand for China's jewellery market has boomed. The reason explained by employing the jeweller's strategy- improving designs and understanding the consumers. The authors suggested that brands development and identifying the buying opportunities will help jewelers to meet modern consumer's demand .Ms. Zhang Chenghui , Mr. Chen Daofu (July 2018) explained the evolution of China's Gold market. The authors analyzed the challenges faced as laws and regulations are outdated, Gold internet companies do not belong to Financial Institutions, imposition of quotas. They determined the areas of improvement in infrastructure of the market – two way cross border flow of goods and capital, understanding potential future customers. It also highlights gold investment characteristics .Roman Grynberg, Teresia Kaulihowa (October 2018) believe that decline of gold jewellery demand resulted in increase in long term price volatility.

The decline was due to 2009 crisis and rise in gold jewellery prices. The authors had made use of GARCH Models and ARCH Models for analyzing volatility. The results was the inverse relationship between gold price volatility and jewellery demand. Lastly quantitative easing shall be used wisely for the mitigation of the negative effects of volatility .Vaibhav Aggarwal (January 2018) attempts to analyze the demand of gold by retail consumers and change in consumer's buying patterns. The author mentioned that increased in demand of gold resulted in higher imports which lead to increasing current account deficit. The author examined the effect of demonetisation on gold demand- increased in the use of cards for the purchase of gold products. Also it describes the Festival of Gold which impacts the demand for gold purchase by the consumers .Dr. J K Raju, Manjunath B R (February 2018) assessed the risk in Gold ETFs. The paper also provides the awareness about Gold ETFs performance. The authors developed the performance evaluation techniques like Sharpe performance index, Treynor performance index and Jensen performance index. The authors also used Correlation Analysis to analyze the relationship between ETFs ranging from strong positive correlation to negative correlation. The performance index helped the investors to make effective investment decisions .Charan Singh, Amrutha Das (January 2017) analyzed the challenges for the implementation of Gold Monetization Scheme. The Scheme is explained as productive use by households and religious institutions. The authors emphasized ways the government addressed gold demand in USA, Turkey. Also they highlighted the reasons for the failure of GDS and GML. Misconception, Manipulation techniques, Delay in performance of CPTC resulted in poor performance of GMS. In the end, the authors recommended the measures for successful implementation of GMS .Gerry Chen (October 2018) had put forward the proposal for progress of China's jewellery market. The author analyzed consumer behavior to arrive at the significant insights- consumer preferences differ and preferences vary. The author suggested that jewellery shall have a brand to gain trust of the customers and to connect with the consumers deeply. Also online platforms for buying and selling shall focus on the time variant and convenience (Ref.8).

Moradia, Abha and Mehta, Ashish C (August 2018) measured the risk return aspect of Gold and Sensex. The authors direct the performance of gold in relation to the stock market. It used Pearson correlation coefficient analysis to conclude that there is an increase in gold prices and decrease in stock prices during the economic distress. Also gold is less volatile and risky than stock market. Gold can be used as an inflation hedge .Girish Karunakaran Nair, Nidhi Choudhary (2015) denoted that there is an inverse relationship between the exchange value of the currency and prices of gold in the market. The authors measured the association using Johansen co-integration test which is based on Vector Auto Regression approach. The paper determined the use of Granger Casuality Test for knowing the cause and effect relationship between variables. The authors emphasized on the exchange value of the currency which is an important factor in fluctuations of the gold prices, which would ultimately help in taking investment decisions.

Literature Gap

There has not been enough literature comparing Gold investment products and strategy of India with China. The gap also considered the missing piece in the research literature which is the area that has not been explored. The area is about analyzing Gold investment strategies and providing suggestions for the improvisation of Gold industry in India.

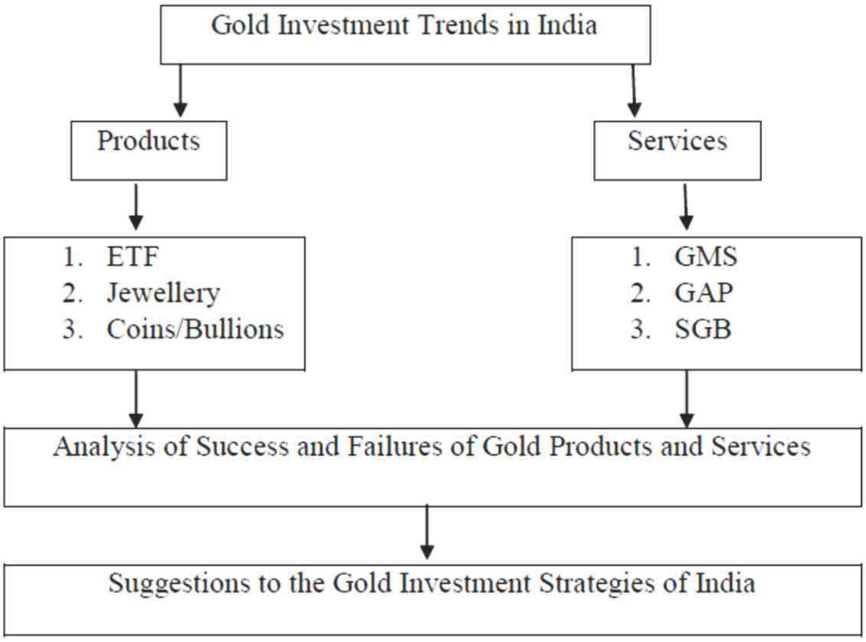

Figure1: Gold Investment Trends in India

Methodology

World Gold Council, Reserve bank of India, International Monetary Fund, International Financial Statistics set the standards and provide insights into the international gold market. These organizations foster global monetary cooperation, facilitate international trade. Also includes statistical publication comprising of exchange rates, balance of payments, interest rates.

Data Collection

The research paper is based on secondary data which involves the synthesis of existing research. The data has been collected, organized and disclosed with respect to the gold products and services in India mentioned in the research paper. It comprises secondary data sources such as World Gold Council, Reserve bank of India, International Monetary Fund, International Financial Statistics.

Success and Failures of Indian Gold Products and Services

Success

ETF: Gold is considered a secure investment, because it can be used as a currency fluctuation and inflation security. To start trading in gold ETFs, there is a need to buy a minimum of 1 unit of gold-equal to 1 gram of gold. Buying and selling the units acts like equities, it can be exchanged by stockbroker or manager of ETF funds. Gold rates are publicly accessible on the stock exchange. There is a facility for day or hour monitoring of the gold prices without any doubt. Buying and selling gold ETFs from any part of the country at any time of the day when the stock exchanges are open. Gold ETFs listed on the stock exchange do not bear any entry or exit load to buy or sell units. Minimum brokerage of around 0.5 to 1 percent. Gold ETFs older than one year bear taxes on long-capital gains. Nevertheless, gold ETFs do not have VAT, Wealth Tax or Securities Transaction Tax. Gold ETFs are an safer investment than physical gold as there are no worries about fraud, safe storage or payments like locker fees or charges. Gold values generally do not fluctuate very strongly. Even if equity returns go down, gold ETFs might prevent investors from sustaining large losses. Gold ETFs are a good way to make an investor portfolio more diverse. A diversified portfolio can deliver better returns despite uncertain market conditions and rising risks.

Gold Monetization Scheme: The scheme will help in mobilizing gold that has been lying idle in the confined spaces of households, trusts and other institutions in India. The movement of gold in the national market will further gain from the Indian gems and jewellery market, a significant contributor to the exports of India. Gold lying in bank lockers or household does not earn investors anything. In fact when investor store gold in a bank locker, there is bank locker charges to keep it safe. The gold monetization scheme will help investors earn interest on gold deposits, which will add to savings. Bank lockers are hard to get. Opening a gold deposit account with a bank will eliminate tension regarding gold storage. The earnings on the gold monetization scheme are exempted from capital gains tax, wealth tax, and income tax. Even when the value of gold deposit appreciates, capital gains tax will not be levied on it or on the interest earned from it. The gold depositor has the option to take either cash or gold on redemption. However, the redemption preference has to be mentioned at the time of deposit. The mobilized gold will also supplement the Reserve Bank of India gold reserves. It will also help the government in reducing the Government's cost of borrowing. In the long run it is also expected to decrease India's dependency on gold imports.

Sovereign Gold Bond Scheme: Ownership of gold without any physical possession. The tax on capital gains resulting from an individual's redemption of SGB has been exempted. The indexation benefits will be made available to long-term capital gains resulting from bond transfer to any individual. Bonds will be tradable on stock exchanges on a date notified by the RBI within fortnight of their issuance. Bonds shall be transferable by execution of an Instrument of transfer in accordance with the provisions of the Government Securities Act.

Jewellery: Firstly, jewellery means wealth, prestige and social success. Secondly, jewellery is often considered vital to have economic and social security since people assume its value would never depreciate. Because of these factors, the size of India's jewelry market is estimated to be about 6.180 billion Indian rupees in 2021.

Failures

ETF: ETFs are financial items which are at risk for counterparties. There is counterparty danger because there is a chance that the other party will default or fail to fulfill their obligations in a contract. There are no formal binding arrangements between the sub custodians or the custodians and the trustees. As a result, trustees and custodians are limited in their right to force legal proceedings against sub-custodians. In any error then the trustee is on the hook. Gold reflects an indivisible, fractional value in the Trust. When investors invest in a gold ETF they purchase the trustee's shares.

Gold Monetization Scheme: Very poor interest rate compared to normal cash deposits. Even the saving bank account fetch above 4% of interest income whereas Government has suggested providing 0.5% rate of interest for Gold deposit. This has led to nearly no interest towards depositing the Gold to earn interest out of it. Most of the time people buy gold from the nearby Jeweler. Generally, jeweler gives the customer an option of buying the gold with receipt or without the receipt and at the same time inform that if customer chooses to take the receipt and or credit or debit card then he/she will charge additional few percentages. So most of the cases customer buys the gold without any receipt. Even if they take the receipt over the period they do not store these receipt hence do not really have any evidence to show how they bought this much gold. There is a fear in people mind that if they deposit the gold in the Bank then somehow Government will use this information against nagging them to find out how they could accumulate this Gold in the first place.

Even after if some people decide to go ahead with this monetization scheme, the whole process is so time consuming that it ends up investing almost a day from one's busy life. Hence people choose not to go with this investment option.The Gold jewellery deposited in the Bank will be melted down to an equal bar or coin and the customer will have the option of taking back the Gold in the form of a gold bar or cash. People who have created and paid making charges for the gold jewellery are waste if they decide to put this gold in the Bank.

Sovereign Gold Bond Scheme: Advertisements for Sovereign Gold Bonds are splashed around newspapers and hoardings. But one key thing missing in these advertisements is returns, which will get investors to pay attention. Indian gold buyers are delighted by keeping an eagle eye on regular gold prices and jumping in to buy on dips. But the Sovereign Gold Bond deprives customers of this excitement as it is sold within a week for limited periods. Sovereign Gold Bonds ought to reach out to the vast Indian middle class that has a gold-looking penchant. So, it is important to think about traditional forms of distribution. The initial gold bond tranches were only sold through banks and approved post offices. Recently, stock exchanges were added to the list. Yet it is doubtful such intermediaries would be dedicated advertisers.

Jewellery: If the government does not rise to the occasion and incentivise foreign investors seeking to shift base to India and address the issues that the gems & jewellery industry is facing, India could lose a large chunk of the $2 billion export market to competitors. A GJEPC official said Indian jewellery industry is still deprived of normal working capital support due to banks' apathy towards the sector despite a significant improvement in compliance levels. Another issue they raise is of accumulated inputs credit. This is because IGST on diamonds is 0.25 per while GST on the services they provide is 5 per cent and they are left with much higher credit of GST which cannot be used and keeps working capital locked.

Table3: Key Factors

	Success	**Failures**
1. Jewellery	Increase in fashion dictated buying	Limited Standardization
	Hallmarking and Certification	Accumulated Input Credit
	Economic and Social Security	–
2. Gold coins and bullions	Lower making charges	Not an investment in company growth
	Ease of selling	–
3. ETF	Diversification benefits	Counterparty risk
	Lower expenses	Trustee trouble
4. Gold Monetisation Scheme	Mobilize idle gold	Minimal interest rate
	Earn interest	Fear of trap
	Enjoy tax benefits	–
5. Sovereign Gold Bond Scheme	Hassle free	Wider distribution
	Tradability	
	Transferability	

Issues and Challenges

Current Account Deficit

While the trade deficit in the first three quarters was slightly higher, the CAD to GDP ratio reached 2 per cent. Nevertheless, in Quarter 4, the trade deficit narrowed with the reduction of international crude oil prices, which led to a lower CAD. For the year as a whole, the CAD increased from 1.8 per cent a year earlier to 2.1 per cent of GDP, owing to a higher trade deficit as seen in Chart1. Owing to both the rise in international commodity prices and the faster growth in volumes of imports over the year, CAD expanded. A rise in net invisibles, as seen in Chart 2, helped to curb the CAD throughout the year.

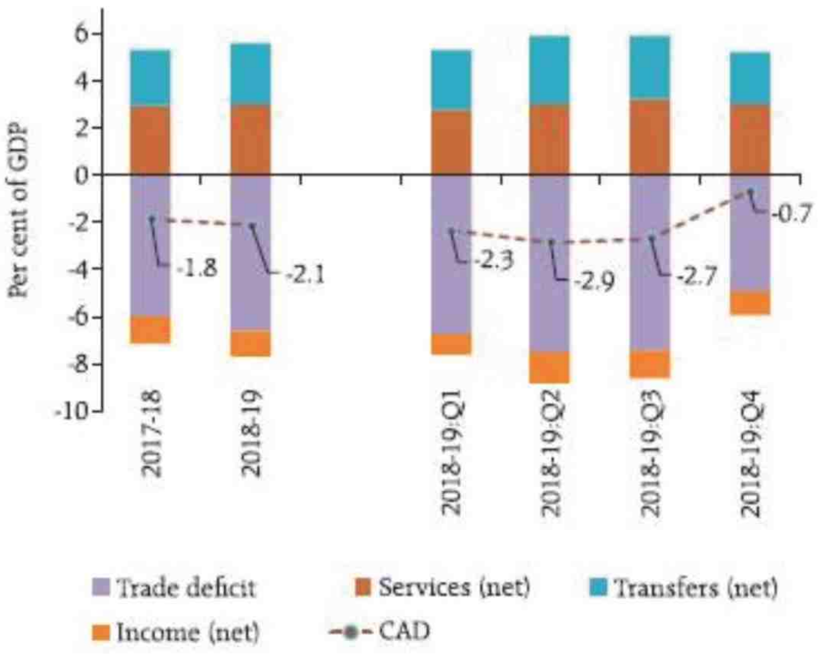

Chart1: Composition of India's CAD

Source: RBI

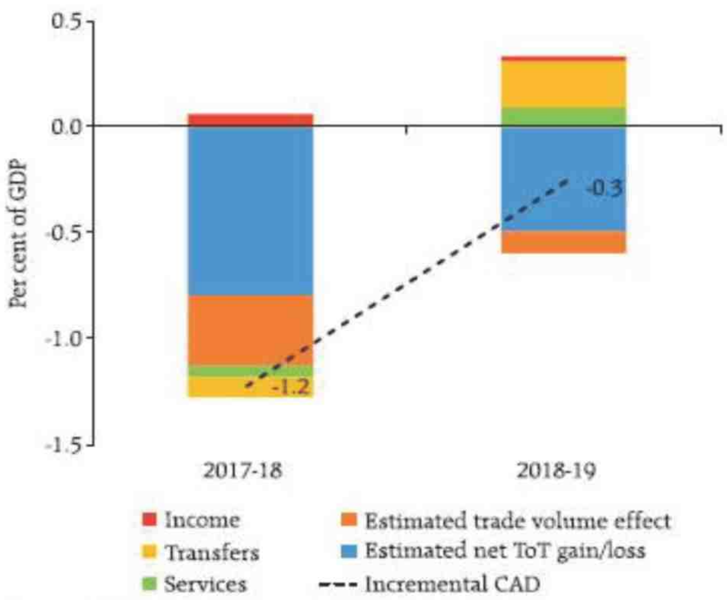

Chart2: Sources of International CAD

Source: RBI

Gold Investment Strategies of China

The SGE was established by China's government and policy makers as the country's only official gold forum. Imports of gold, gold extracted domestically, and recycled gold deal through the market. The edge helps to turn the SGE platform into a force in global gold business.

To further drive the SGE's dominance, the Chinese government has also introduced many other measures, including no value-added tax on gold purchases and 13 percent VAT on silver, which is price-inclusive. This also adds further contracts for gold such as Shanghai Gold, the International Board etc.In a 2018 study on the growth of China's gold markets, the World Gold Council, an industry organization, said the Asian nation's financial sector enjoys more liberal policy initiatives.

Factors of supply and demand are behind the rise of China, to become one of the biggest gold markets in the world.

Investment and central bank purchases

Investment demand for gold is also high in China. According to the WGC, as of September 2019, the official gold reserves of the People's Bank of China amounted to 1,936.5 metric tons, making it the seventh largest gold holder, only behind France and Russia.

China is a net-gold importer, because it consumes significantly more gold than it produces, and it imports metal from the mainland as well as from Hong Kong.

Chinese gold prices match the prices seen on both the COMEX gold futures market and the London bullion market, though local supply and demand factors also influence prices. Gold prices in China always have a prime to draw gold to the country.

The benchmark price for China

The SGE developed its own benchmark price in 2016, to better represent local factors of supply and demand. The Shanghai Gold Benchmark price is based on one kilogram of gold, having a purity of 999.9 fineness and is deliverable to SGE approved vaults, denominated in renminbi per gram. The price is calculated twice a day in the morning and afternoon sessions via electronic auctions. Due to the manner in which Chinese prices fluctuate relative to London values, it is hard to tell how much impact SGE has on the global gold price. The average regular Chinese gold price over the LBMA gold price has traded at a premium of $10 per ounce.

New futures contract

CME Group also released two new contracts for gold futures based on the Shanghai Gold Benchmark PM price. The new contracts will be settled technically, one denominated in US dollars, Shanghai Gold (USD) futures and one denominated in renminbi futures, Shanghai Gold (CNH). For the 100-ounce COMEX gold futures contract, the new contracts have recourse to arbitration and catch the margin offset advantages between the COMEX gold futures and other CME Group commodities. Trading interest in metals in general is growing as the COMEX metals contracts for the CME Group saw record volume for precious and base metals in August with an total volume of 885,000, up 41 percent from August 2018. When the Shanghai Free Trade Zone was established in 2014 it allowed participants on the overseas market to trade on the exchange, enabling non-Chinese banks to import gold into China and trade on its platform. The forum is known as the Shanghai International Gold Exchange, typically called the International Board of Directors.

Although the amount of trading on the International Board is insignificant compared with local contracts, it provides international speculators hedging tools and investment options. Traders may go short or long in the Chinese gold contracts to express a view not only on the course of the gold price, but also whether they see the yuan rising or dropping against the US dollar. This currency dimension of gold trading draws investors adding that the price of gold in terms other than US dollars is now at record highs. The dollar's resilience has hindered the upside in the dollar gold price that hasn't been revealing the whole story about global gold demand. One reason foreign investors will buy yuan-denominated assets is to be able to exchange gold on the Overseas Board, which they can't do for many other conventional investments because the yuan is not floating freely. For Chinese nationals too, gold also serves as a safe haven security. The credibility of the financial statements of many domestically listed companies remains questionable and the Chinese government has imposed strong restrictions on its real estate market because it fears another possible bubble there. It helps gold become one of the Chinese community's most rational investments.

Suggestions and Recommendations

The issue of making of hallmarking mandatory suggested by Niti Aayog report as on February 2018, it has been decided that a notification will be issued on 15th January 2020 to make it compulsory for all the jewellers to sell only hallmarked gold jewellery. It will boost customer loyalty and demand growth for jewellery. The Gems and Jewelry Export Promotion Council has signed a Memorandum of Understanding with Maharashtra Industrial Development Corporation to create India's largest jewellery park in Ghansoli, Navi Mumbai, on a 25-acre land with over 5,000 jewellery units of different sizes ranging from 500 to 10,000 square feet. Jewellery park is an integration of manufacturing units, commercial areas. Imports duty on gold fell by 30% due to the reduction in prices following interim trade deal between China and USA. Earlier imports duty was higher leading to fall in the demand for gold.

Conclusion

Hallmarked Gold will change the dynamic of the market. It will help India become a member of the Vienna Convention, so that products labeled in India can be imported into member countries without further checking. Reduction of gold imports will positively affect the large economy by reducing current account deficit.

Managerial Implication

Gold mining is a major economic factor for many countries around the world. Well-managed, open and accountable exploitation of resources can be a significant contributor to economic development by generating jobs and incentives for local people to do business. Gold mining also brings foreign direct investment, foreign exchange, and tax revenues to nations, as well as direct and indirect jobs and housing. Banks should be allowed to buy gold directly from approved refiners and give them the sole authority to export bullion will help create capacity within refiners automatically and increase compliance across the value chain. This will include necessary amendments to the RBI Act and the Banking Regulation Act.

Limitation

The suggested study is restricted to only on secondary data of two countries- India and China. It mainly relied on the Gold investment products and services.

Contribution of Research

The study contributed authentic information on different gold investment products and services in India. Also it helped to gain knowledge to make effective investment decisions.

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