An Analytical Study of Volatile Gold Prices: With Effect of GST

Hema Raghav*
Dr. Alka Swami**

ABSTRACT

Gold worth $3.85 billion was imported in April 2017, which is more than 200% from $1.2 billion a year ago (www.economictimes. indiatimes.com). The price of gold is mostly related to economic and political instability (Gencer, H.G & Musgoglu, Z., 2014). Over a period of time gold has seen drastic fluctuations. Since inception gold is the backbone of the economy. This paper examines the volatile gold prices in Indian market, factors that are responsible for volatility and implication of GST on gold prices.

Key words: Gold prices, Fluctuation, Indian Market, GST, Political Instability, Economy

INTRODUCTION

Since the ancient times, gold has been an object of desire. It has served as a means of exchange. Individuals seek it out for personal wealth and security. It is perceived as a safe shelter especially during periods of financial and economic stress. There has been an increase in the prices of gold by nearly 900% in the past 10 years. The price of gold in January 2002 was Rs.3097 per 10 grams however by October 31, 2015 it came to Rs.26198 per 10 grams and as on June 02, 2017 was Rs.28,200(Baber, P., Baber, R,. & Thomas, G., 2013).It is perceived as the best investment for common man. In India there are many investment areas, such as stock market, mutual fund, fixed deposits and government bonds, but yet people prefer to invest in gold. They believe that the Gold is the most trusted investment forever, and it will not diminish its shine and gleam for centuries. Traditionally gold has been a safe investment option in India, but its role has changed with the time. Gold is now being traded and forecasted as a commodity (Greely & Currie, 2008)

VOLATILE GOLD PRICES AND ITS IMPACT ON THE ECONOMY

- Hedge against Inflation: Banks keep gold reserves as a hedge against inflation. When the inflation is high, the demand for gold increases and when the inflation is low the demand for gold decreases. The price of gold goes up as a result of high demand from customers. This holds true for both international inflation as well as that which occurs in India.
- Global Movement: India is one of the largest importers of gold and as such when the import prices change due to global movement in price, the same is subsequently reflected in the prices of gold at home. Since, the value of currency as well as various financial products may fall during any political turmoil, gold is seen as a safe haven by investors and as such the demand and price of gold rise in times of political chaos as compared to peaceful times.
- Jewelry Market: Indians love their gold jewelry. On every auspicious occasion gold holds a special place in Indian households. Right from wedding and other festivals, this yellow metal is also used in small quantities by various electronic companies for manufacturing of devices like television, computer, GPS etc. As a result, the customers demand for gold increases. Thus, due to the mismatch in demand-supply the prices of gold the industrial demand for gold accounts for 12% of the total demand for gold in the country. (www.gold.org)

* Research Scholar, Faculty of Management, Pacific University, Udaipur
**Assistant Professor, Government College of Engineering & Technology, Bikaner

- Interest rate trends: Trend in the interest rate impacts the prices of gold. As rates of interest increases, customers tend to sell gold to acquire more cash, and as the interest rates reduce the customers start demanding more gold. (https://www.bankbazaar.com)
- Supply in the market – Supply arrives from gold mines and sales of existing gold in the financial system. Nearly 60% of all the gold in the market is formed in mines. South Africa is the world's topmost gold exporter, with 14% of the overall gold production, which is followed by other countries like US, Australia, Latin America and China. Another factor, which affects the supply, is the recycled gold, which plays a major role in the price of gold. Supply of recycled gold usually increases when the world economy is sluggish or when gold prices upswing. (www.forbes.com)

In the year 2013-14, the import of gold was $28.7 billion, which increased to $34.43 billion in 2014-15, due to the decrease in prices and easing of restrictions by RBI, which increased the countries trade deficit to $137 billion. Gold imports were registered $30.7 billion in 2015-16 and was $23.2 billion during the last FY (April 2016 to February 2017) however in volume it was 560.32 tonnes of gold was imported. During the fiscal year 2016-17 Indian gold imports dropped 24%. (www.profit.ndtv.com)

Table 1 : Demand of Gold

	2010	2011	2012	2013	2014	2015	2016		Year-on-year % change
Jewellery	2053.417	2093.367	2133.089	2691.644	2488.075	2400.242	2040.27	▼	-14.9973
Technology	460.4974	428.5867	381.3396	355.9231	348.6714	331.9637	323.4326	▼	-2.56991
Electronics	321.4605	302.6119	266.5187	249.7911	277.5301	262.141	255.6967	▼	-2.45832
Other Industrial	93.40198	89.78767	86.38134	83.12983	51.22313	50.9616	49.74565	▼	-2.38602
Dentistry	45.63487	36.18706	28.43958	23.00221	19.91818	18.86119	17.99024	▼	-4.61769
Investment	1624.388	1736.457	1610.16	800.2211	860.9929	937.6517	1574.155	▲	67.88269
Total bar & coin demand	1203.615	1497.927	1303.479	1715.723	1044.833	1065.995	1042.021	▼	-2.24896
Physical Bar demand	920.7456	1186.3	1008.612	1346.408	760.5225	766.6123	769.6325	▲	0.393975
Official Coin	195.7965	227.6895	184.7976	268.6748	204.8421	224.276	207.221	▼	-7.60447
Medals/Imitation Coin	87.07266	83.93734	110.0699	100.6398	79.46836	75.10641	65.16735	▼	-13.2333
ETFs & similar products*	420.7732	238.5304	306.6804	-915.501	-183.84	-128.343	532.134	-	-
Central banks & other ins	79.1505	480.7865	569.3472	623.8467	583.9016	576.5371	377.1881	▼	-34.577
Gold demand	4217.453	4739.197	4693.935	4471.635	4281.641	4246.395	4315.046	▲	1.616696
LBMA Gold Price, US$/oz	1224.52	1571.52	1668.98	1411.23	1266.4	1160.06	1250.8	▲	7.822009

***For a listing of the Exchange Traded Funds and similar products, please see the Notes and definitions section in the full report.**
Source: Metals Focus; GFMS, Thomson Reuters; ICE Benchmark Administration; World Gold Council

Table 2: Demand of Gold from Q1'16 to Q1'17 (Tonnes)

	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17		Year-on-year % change
Jewellery	474.4127	445.3764	494.7715	625.7097	480.8623	▲	1.359495
Technology	76.37941	80.05098	82.54032	84.46187	78.48963	▲	2.76281
Electronics	59.8711	62.96316	65.30199	67.56043	62.09184	▲	3.709207
Other Industrial	11.94597	12.51551	12.77824	12.50592	12.07002	▲	1.038414
Dentistry	4.562338	4.572311	4.460081	4.395511	4.327764	▼	-5.14153
Investment	606.9377	449.9837	335.1073	182.1262	398.8958	▼	-34.2773
Total bar and coin demand	264.8696	212.5726	189.6391	374.9396	289.8179	▲	9.419079
Physical Bar demand	203.3901	153.3132	137.889	275.0403	233.0095	▲	14.56285
Official Coin	49.24759	46.18972	34.29661	77.48709	42.38654	▼	-13.9317
Medals/Imitation Coin	12.23198	13.0697	17.45341	22.41226	14.42191	▲	17.90331
ETFs & similar products*	342.0681	237.4111	145.4683	-192.813	109.0779	▼	-68.1122
Central banks & other inst.	104.0795	77.91608	86.69968	108.4928	76.25175	▼	-26.737
Gold demand	1261.809	1053.327	999.1188	1000.791	1034.5	▼	-18.0146
LBMA Gold Price, US$/oz	1182.56	1259.62	1334.78	1221.55	1219.49	▲	3.122886

***For a listing of the Exchange Traded Funds and similar products, please see the Notes and definitions section in the full report.**
Source: Metals Focus; GFMS, Thomson Reuters; ICE Benchmark Administration; World Gold Council

Table 1 indicates the Demand of Gold from the year 2010 to 2016 for the similar items related to gold whereas Table 2 indicates the Demand of Gold for the various quarters of 2016 and Q1 of 2017. It shows that the Q1, 2017 the demand for gold has gone down by 18%.

Table 3 Indian supply estimates from 2012 to 2016 (Tonnes)

Supply	2012	2013	2014	2015	2016		Year-on-year % change
Gross Bullion imports	974.4516	959.3757	994.77	1065.02	648.32	▼	-39.126
of which doré1	23.1921	36.8864	84.144	229.01	141.87	▼	-38.0507
Net bullion imports	842.8034	876.4259	898.615	913.62	557.7486	▼	-38.9518
Scrap	118	95.75	92.5	80.2	81.84	▲	2.044888
Domestic supply from other sources2	10	9.59	9.93	9.2	9.9	▲	7.608696
Total supply3	970.8034	981.7659	1001.045	1003.02	649.4886	▼	-35.2467

Table 4: Indian supply estimates from Q1'16 to Q1'17 (Tonnes)

Supply	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17		Year -on-year % change
Gross Bullion imports	151.4	142.92	118.06	235.94	283.08	▲	86.9749
of which doré[1]	34.8	36.67	11.06	59.34	62.18	▲	78.67816
Net bullion imports	127.4	120.3486	99.56	210.44	270.08	▲	111.9937
Scrap	14	23.76	28.08	16	14.49	▲	3.5
Domestic supply from other sources[2]	3.3	2.2	2.2	2.2	2.2	▼	-33.3333
Total supply[3]	144.7	146.3086	129.84	228.64	286.77	▲	98.18245

1 Volume of fine gold material contained in the doré.

2 Domestic supply from local mine production, recovery from imported copper concentrates and disinvestment.

3 This supply can be consumed across the three sectors – jewellery, investment and technology. Consequently, the total supply figure in the table will not add to jewellery plus investment demand for India.

Source: Metals Focus; World Gold Council

Table 3 indicates the Estimated Indian Supply from 2012 to 2016 whereas Table 4 indicates Estimated Indian Supply for the quarters of 2016 and Q1 of 2017. India is a heavy importer of gold as it is a cultural part of the society. The import was reduced by 39% from 2015 to 2016 due to high import duty. Which again increased in Q1'17 as compared to Q1'16 by 86% and 98% increased in total supply for the same period.

Table 5 Consumer demand in selected markets from 2010 to 2016 (Tonnes)

	2010	2011	2012	2013	2014	2015	2016		Year-on-year % change
India	1001.712	974.0224	914.1512	958.5812	833.4536	857.2385	666.085	▼	-22.2988
Greater China	676.249	872.9811	918.1805	1449.433	1083.429	1047.807	968.9393	▼	-7.52691
Japan	-19.0554	-36.3578	5.139576	20.87339	13.70893	32.66946	34.10968	▲	4.408452
Middle East	326.8791	301.1685	296.421	379.6755	316.1405	291.1964	206.0524	▼	-29.2393
Turkey	108.7544	145.5273	113.9503	184.0843	116.6896	72.12357	70.1231	▼	-2.77367
Russia	60.33115	64.35104	67.6561	79.70422	74.90617	42.8	37.5086	▼	-12.3631
Americas	303.6519	266.365	223.7073	250.4903	223.47	248.2573	269.4593	▲	8.540333
Europe ex CIS	395.5823	423.7196	317.6867	337.4317	274.1582	297.36	277.0736	▼	-6.82216
Other & stock change	121.4995	210.9392	235.746	296.1084	252.4913	257.4906	249.1516	▼	-3.23858
World total	3257.032	3591.293	3436.568	4407.367	3532.908	3466.237	3082.291	▼	-11.0767

Source: Metals Focus; GFMS, Thomson Reuters; ICE Benchmark Administration; World Gold Council

Table 6 Consumer demand in selected markets from Q1'16 to Q1'17 (Tonnes)

	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17		Year-on-year % change
India	107.2389	122.0952	192.7792	243.9716	123.5036	▲	15.16679
Greater China	274.4402	198.0345	192.6596	303.8051	297.314	▲	8.334711
Japan	7.167273	9.559602	7.48829	9.89451	1.406081	▼	-80.3819
Middle East	61.48271	49.84449	43.80788	50.91737	64.47355	▲	4.864516

Turkey	13.70503	13.72422	14.6489	28.04496	16.68108	▲	21.71508
Russia	8.31	8.5	10.548	10.1506	8.51	▲	2.406739
Americas	54.72953	68.4574	56.57542	89.697	51.24098	▼	-6.37416
Europe ex CIS	69.01712	55.73778	45.84506	106.4736	73.5285	▲	6.536615
Other & stock change	58.53926	60.89339	53.74646	75.97249	53.1589	▼	-9.19102
World total	739.2823	657.949	684.4105	1000.649	770.6802	▲	4.247077

Source: Metals Focus; GFMS, Thomson Reuters; ICE Benchmark Administration; World Gold Council

Table 5 indicates the Consumer demand in selected markets from 2010 to 2016 whereas Table 6 indicates the onsumer demand of Q1 of 2016 and Q1 of 2017, in which the demand for gold has gone up for India due to gold again seems one of the best instruments for the investment.

GOODS AND SERVICES TAX (GST): ITS IMPACT ON GOLD- "ONE NATION ONE TAX"

Goods and Services Tax (GST) has been hailed as the biggest tax reform in India since independence. It is an indirect tax, which will be applied throughout India. It would replace taxes levied by the central and state governments. GST Council governs GST and its chairman is Union Finance Minster of India, Arun Jaitley. It is an amalgamation of all the central and states taxes into one single tax. The biggest advantage of GST to the consumers is that there would be reduction in the overall burden of tax, however there will be free movement of goods from one state to another state without stopping at the state boarders for hours for the entry tax and there would also be reduction of paper work.

FACTS ABOUT GST

Right now there are separate taxes for central excise, service tax. VAT, CST. On 1st July all the taxes will be replaced by one simple tax and only one single law shall be applied nationwide. 3% GST rate is applicable on the purchase of physical gold and the exception being rough diamonds at 0.25%. With the implementation of GST the countries gold market will become more organized and transparent. (http://www.business-standard.com)

- The new regime will have four slabs of 5%, 12%, 18% and 28%
- Packaged food has been fixed at 5%, while biscuits will be taxed at 18%
- Gold will be taxed at 3% as against the current tax incidence of 2-6%
- Apparel costing below Rs 1,000 will be taxed at 5%
- Footwear below Rs 500 will be taxed at 5% while the rest would come in the 18% bracket
- Beedi and beedi leaf will not attract a cess over and above the tax of 28%
- Most food items – including wheat, rice and milk excepted from the tax bracket
- Sugar, tea, coffee and edible oil, would attract 5% tax
- GST Council decided the tax rates for 1,200 goods and 500 services

(www.hindustantimes.com)

IMPLICATION OF GST ON GOLD

India being the largest consumer of gold in the world there would be some challenges in its implementation. It is assumed that with the implementation of GST gold will become costlier for the Indians customers, the prices of gold and other precious metals will go up. Many precious metals, which were not in the bracket of tax, shall now be included.

At present gold market is dominated by small business or in fragments, as it is an unorganized market where 95% of the jewelry industries are consisting of small-scale operations. With GST being implemented the gold market would become consolidated market it would be more organized and transparent market (http://www.business-standard.com). With this the consumers will build trust and faith in gold products and they would not mind to pay more for what they are buying and this will in turn increase in demand of gold in the coming years (http://economictimes.indiatimes.com). Initially the small jewellery shops may illegally try to benefit by not paying tax, however with GST this problem would be resolved and they would also have to come into tax bracket.

The exchange demand of old jewellery for new once will also be impacted due to the 3% GST and thus it is a taxable transaction (www.business-standard.com).

It is also estimated that the economic growth will boost up by 0.5%, the GDP will increase by 2% and as per the National Council of Applied Economic Research (NCAER) the estimated gross domestic product would rise to 0.9-1.4%. The World Bank expects India to grow at 7.2% in 2017 and to grow to 7.7% by 2019 (www.gold.org). The tax burden of 13.6 to 14% would increase on the consumers (www.telegraphindia.com).

The government has suggested the consumers to invest in gold sovereign bonds rather than investing in physical gold. The gold bonds have an interest coupon attached to the bonds, which would be beneficial to the investors (www.business-standard.com).

CONCLUSION

GST is a positive step in the Indian economy. There are some short-term challenges, however it will boost the economy and make the gold industry more transparent for the benefit of the buyers (www.gold.org). With the implementation of GST there would be increased paperwork and lot of compliance (www.economictimes.indiatimes.com). From the consumers point of view the gold market would be organized and transparent and thus the rate of taxes would increase. There would be reduction in black money being rolled in the society and reduction in corruption.GST would eliminate taxation and improve the supply chains efficiency. Consumers and jewelers will take some time to adopt this new rule, however after some time the market would stabilize (www.moneycontrol.com).

REFERENCES

Gencer G, H., & Musoglu Z (2014). "Volatility Transmission and Spillovers among Gold, Bonds and Stocks: An Empirical Evidence from Turkey". Vol. 4, No. 4, 2014, pp.705-713 ISSN: 2146-4138.

- Tripathi L, K., Parashar A., & Singh R(2014). "Global Factors & Gold Prices in India-A Casual Study". Vol.3, No. &, 2014, ISSN: 2278-6236
- Baber P., Baber R., & Thomas G(2013). "Factors affecting Gold prices: a case study of India". Research gate, March 2013 National Conference on Evolving Paradigms in Manufacturing and Service Sectors, Volume: I DOI: 10.13140/RG.2.1.5105.2969
- Gaur A., & Bansal M. (2010, February). A Comparative Study of Gold Price Movements in Indian and Global Markets . Indian Journal of Finance Volume 4, Issue 2
- Brodsky, D. A., & Gray P. S (1980, March)."The Value of Gold as a Reserve Asset", World Development. Volume 8, Issue 3, March 1980, Pages 175-192.
- Ghosh, D., Levin, E. J., Macmillan, P., & Wright, R. E. (2002), "Gold as an Inflation Hedge", Discussion Paper Series No.0021, Department of Economics, University of St. Andrews.
- Abken, A. P. (1980, March)."The Economics of Gold Price Movements", Federal Reserve Bank of Richmond, Economic Review, March /April. pp 3-13.
- Narang, S. P., & Singh, P. "Causal Relationship between Gold Price and Sensex: A Study in Indian Context". Vivekanand Journal of Research 1(1), 33–37.
- https://www.bankbazaar.com/gold-rate/basic-highlights-of-the-gold-schemes-launched-in-2015.html accessed on 10/6/2017
- https://www.bankbazaar.com/gold-rate/how-gold-rate-fluctuation-affects-indian-economy.html accessed on 12/6/2017
- https://www.bankbazaar.com/gold-rate/top-5-factors-that-affect-gold-rate-in-india.html accessed on 12/6/2017
- http://www.business-standard.com/article/economy-policy/gst-on-gold-immediate-impact-to-be-on-consumers-as-resale-value-down-by-3-117060500158_1.html accessed on 11/6/2017
- http://www.businesstoday.in/current/economy-politics/tax-rates-gst-cheaper-and-costlier-cars-travel-motorcycles/story/253695.html accessed on 14/6/17