

India's ongoing love affair with gold

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As Diwali begins, investment analyst Carlo Alberto De Casa examines India's economic and cultural relationship with the yellow metal and why it is so important to the global gold price.

Of all the precious metals, gold is continually proven to be the most popular for investors. It is often seen as the safe-haven commodity, where investors can run to in times of economic or global uncertainty. More practically, it is revered for its hedging properties: A way for investors to diversify their portfolio risk through future contracts or derivatives.

The yellow metal's unique complexity is how it combines the features of both a currency and a commodity. In many ways it operates more like a monetary asset despite its obvious tangible and real value. Yet, unlike other currencies it can't simply be printed by any government. This inelastic supply is one reason it remains resilient to external market shocks.

Instead, gold's price is almost entirely driven by demand, and one of the biggest drivers of this demand is India.

Simply put, Indians cannot get enough of the precious metal. Gold is deeply embedded in the culture of the country and plays many different traditional roles.

Weddings are behind a great deal of this demand. Conservative estimates suggest there are at least 10 million weddings in India every year and the average gold consumption of an Indian wedding can be as high as 7 ounces, roughly 200 grams. According to the World Global Council, half, of the nearly 900 tonnes the country buys every year, is during the wedding season alone.

On top of this, half the population of India is younger than 25, meaning the number of weddings in the country could double in the next five years with demand for the precious metal to following suit. Other roles such as religious gifts contribute further. One famous example is the Sree Padmanabhaswamy Temple in Thiruvananthapuram (pictured top), which some sources claim contains between \$22 billion and \$1 trillion's worth of gold.

In addition to gold's cultural prominence in India, there is also the not insignificant fact that nobody in India has ever experienced a real bear market in gold. Despite the rupee losing much of its value over the last few decades, Indians have retained much of their purchasing power against the dollar because of their continued dedication to owning gold. It may be intrinsically linked with Indian culture, but gold has played a significant role in Indians preserving their wealth.



Diwali, the Hindu, Sikh and Jain festival of lights, is a time of giving; often of gold

It is, however, having the opposite effect on the wealth of the country. Since India imports nearly all its gold, the country is left with a current account deficit that weakens the rupee, a currency that Indians already deeply distrust. So, while Indians continue to invest their savings in the better performing precious metal, the banks continue to be weakened by not having the necessary funds for lending.

Perhaps unsurprisingly, the Indian government has been trying to crack down on gold ownership. Previous attempts to impose import duties or incentivise gold deposits in banks, have caused shocks but retained little long-term impact. This happened in 2016 when physical demand plummeted in India: A jeweller's strike resulted in reduced consumption in March 2016 after levies were introduced intending to tax jewellery made or sold in India. The country then faced a cash crisis when the government launched a surprise demonetization policy that made high-denomination currency notes invalid, the very notes most commonly used for transactions in the gold market.

As a result, Indian gold imports crashed by 39% in March 2016, compared to the same month in 2015, and the government's plan to turn people away from their favourite metal looked like it might finally gain traction.

Yet, a year on and demand for gold in India is rebounding. After the seven year low of March 2016, demand in 2017 for the same month was up 582% to 120 tonnes, as preparations for the Jain and Hindu festival of Akshaya Tritiya kickstarted India's love for gold again. And while 2017 should be seen as more of a transition year, India's demand for gold can be expected to more than recover by 2018, where we could see a return to 800 tonnes.

This trajectory could have a spectacular impact on the price of gold. In recent weeks, the yellow metal's price has declined below \$1,300 due to growing expectations that Janet Yellen, the chair of America's central bank: the Federal Reserve, will again raise rates.

But if the spot price manages to recover past the important threshold of \$1,300, it will open the door for further recovery, and that's something that could be significantly boosted by an increasing demand for gold in India. If the first target of \$1,350 is reached, there's no reason a price move to the next resistance area of \$1,375, can't follow.

Chief Analyst at ActivTrades and Technical Analyst for La Stampa, Carlo Alberto De Casa provides regular commentary for UK outlets including the BBC, The Telegraph, The Independent and Reuters UK. He is also a weekly commentator for CNBC Italy and author of I Segreti per Investire con L'oro (Secrets for Investing with Gold)