VOLUME NO. 3 (2013), ISSUE NO. 07 (JULY) ISSN 2231-4245

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

IJRCM

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   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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VOLATILITY IN GOLD PRICE IN INDIA: AN UPDATE

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TAKATPUR

ABSTRACT

During the end of the World War II, in 1944, forty-four countries around the world signed the well-known Bretton Woods Agreement to establish a new currency system based on gold. They specified the value of the US Dollar is connected to gold and other currencies are connected to the US Dollar. This system indicated where gold standing, not only just as an invest good. This metal has been the only commodity that served as currency in international financial business for centuries. Gold is so ideal that a number of currencies were based on the value of it. For residents, it is an excellent investment good since it could protect them from assets devaluation. For a country, it is an important reserve asset; the situation is somewhat the same as the other precious metals.

KEYWORDS

currency, commodity,reserve asset, assets devaluation,precious metals.

INTRODUCTION

VOLATILITY

Volatility[1] is a measure of uncertainty about future price or return changes on assets. Concerning the factors which drive volatility, there are two arguments. Some scholars say it is exogenously driven by unobservable factor which is correlated with the asset returns. But others concluded that stock market volatility has a very strong pattern of business cycle.

Volatility is a measure of dispersion around the mean or average return of a security. One way to measure volatility is by using the standard deviation, which tells you how tightly the price of a stock is grouped around the mean or moving average (MA). According to Jones volatility will be higher during recession than during expansion.

GOLD MARKET

"Today, gold is regarded as a sign of prosperity, an ornament, a currency and an integral part of religion." This statement can be found in the research summary on the outlook for gold demand and supply in India, a publication by the World Gold Council[3], which is a market development association of gold mining companies representing more than 60% of the global annual gold production. The demand for gold around Festival, marriage etc., The most essential part in Indian culture, is said to impact the gold price globally, as the traditional gift of red envelopes with cash has, in recent years, increasingly been replaced by jewelry.[4]

Gold has been used throughout history as a form of payment and has been a standard for currency equivalents to many economic regions or countries. In spite of its historical monetary significance, a free functioning world market only came of age in recent times. Before 1971, the gold standard was mostly used in various times in history, where domestic currencies have been backed by gold. The system existed until 1971, when the US stopped the direct convertibility of the United States dollar to gold, effectively causing the system to break down. Since then, a global market for gold in its own right developed, remaining open around the clock and open to a range of derivative instruments.

The market for gold[5] consists of a physical market in which gold bullions and coins are bought and sold and there is a paper gold market, which involves trading in claims to physical stock rather than the stock themselves. Physical gold is generally traded in the form of bullions. The bullion market serves as a conduit between larger gold suppliers such as producers, refiners and central banks and smaller investors and fabricators. The bullion market is essentially a spot market, but is complemented by the use of forward trading for the hedging of physical positions.

Since 1919, the most widely accepted benchmark for the price of gold is known as the London gold fixing, a twice-daily (telephone) meeting of representatives from five bullion-trading firms[6].

Furthermore, there is active gold trading based on the intra-day spot price, derived from gold-trading markets around the world as they open and close throughout the day. The key prices in the London bullion market are the spot (fixings) price, the forward price and the lease rate. The spot (fixings) price is a daily clearing or fix price obtained by balancing purchases and sales ordered through its members. The forward price (GOFO) is the simultaneous purchase and sales price of gold forward contracts of various lengths. Generally, the GOFO rate is expressed as an annual percentage[7]. Finally, the lease rate refers to short-term loans denominated in gold and is expressed as an annualized interest rate.

Since 1971 the price of gold has been highly volatile, ranging from a high of US$850 on January 21, 1980, to a low of US$252.90 on June 21, 1999. The period from 1999 to 2001 marked the so-called Brown Bottom after a 20-year bear market.

Prices increased rapidly from 1991, but the 1980 high was not exceeded until 2008 when a new maximum of $865.35 was set on January 3, 2008. Another record price was set on March 17, 2008 at $1023.50. In the second half of 2009, gold markets experience renewed momentum upwards due to increased demand and a weakening US dollar. Overall, since April 2001, the gold price has more than tripled in value against the US dollar.

FACTORS INFLUENCING GOLD PRICES

Essentially the price of gold is determined by:

1) Supply
2) Demand for use in goods such as jewellery
3) Speculative demand to hedge against inflation and economic uncertainty.

DEMAND FOR CONSUMER GOODS

Markets[8] like India have strong demand for using gold in jewellery. Economic growth in India increases disposable income and therefore demand for gold. As gold is a luxury good (income elasticity of demand > 1) then a rise in income in India could lead to a bigger % demand for gold.

INVESTMENT

Gold is seen as desirable element in an investment portfolio. Gold[9] will hold its value even during inflation. At various times, investment trusts and individuals will have a greater demand for saving their wealth in the form of gold. This can lead to higher demand for gold to store wealth. This investment demand is the primary factor behind the increase in price of gold between 2006 and 2011.

INFLATION PROSPECTS

With inflation of 0%, money retains its value. However, if inflation increases to 20%, then money (notes and coins) will reduce in value. If inflation is very high, then money can soon lose all its value. Therefore in periods of high inflation, people will seek to switch out of cash and into physical assets which retain their value. The most important inflation proof investment is seen as gold[10].

Note, it also depends on the real interest rate[11]. If inflation is 6%, but interest rates are 8%, you can still protect the value of your savings in a bank. However, if you get a situation of high and volatile inflation, you are more likely to have negative real interest rates. A key issue is whether market fear inflation could get out of control.

Macroeconomic factors[12] such as low real interest rates can have an effect on gold price. If the return on bonds, equities and real estate is not adequately compensating for risk and inflation, then the demand for gold and other alternative investments such as commodities increases. An example of this is the period of stagflation that occurred during the 1970s which led to an economic bubble forming in precious metals.

Central banks and the International Monetary Fund (IMF)[13] also play an important role in determining the gold price. Recently, the assumption that central banks around the world will increase their gold reserve levels as a hedge against the falling US dollar has also contributed to the rise of gold prices.

Given the huge quantity of stored gold[14,15,16], compared to the annual production, the price of gold is mainly affected by changes in sentiment, rather than changes in the actual annual production.

VOLATILITY IN GOLD PRICE [17,18,19]

In early 1950s, gold touched rs.99 then the price falls up and it increases during 1960s & again the price falls up during the year 1963 – 1967. Then the price increases shaply.Adjusted for inflation, the record gold price reached rs.1300 in 1980 .however, after this 1980 peak the price of gold fell sharply. Then again it increases upto rs 32,000 in the year 2012. Now volatility in gold can be seen in this year 2013. The gold prices is decreses upto rs.26,000 in the month of april - may 2013.

FIG. 1: VOLATILITY OF GOLD PRICE DURING THE YEAR 1950 - 59

FIG. 2: VOLATILITY OF GOLD PRICE DURING THE YEAR 1960 - 69

FIG. 3: VOLATILITY OF GOLD PRICE DURING THE YEAR 1970 - 79

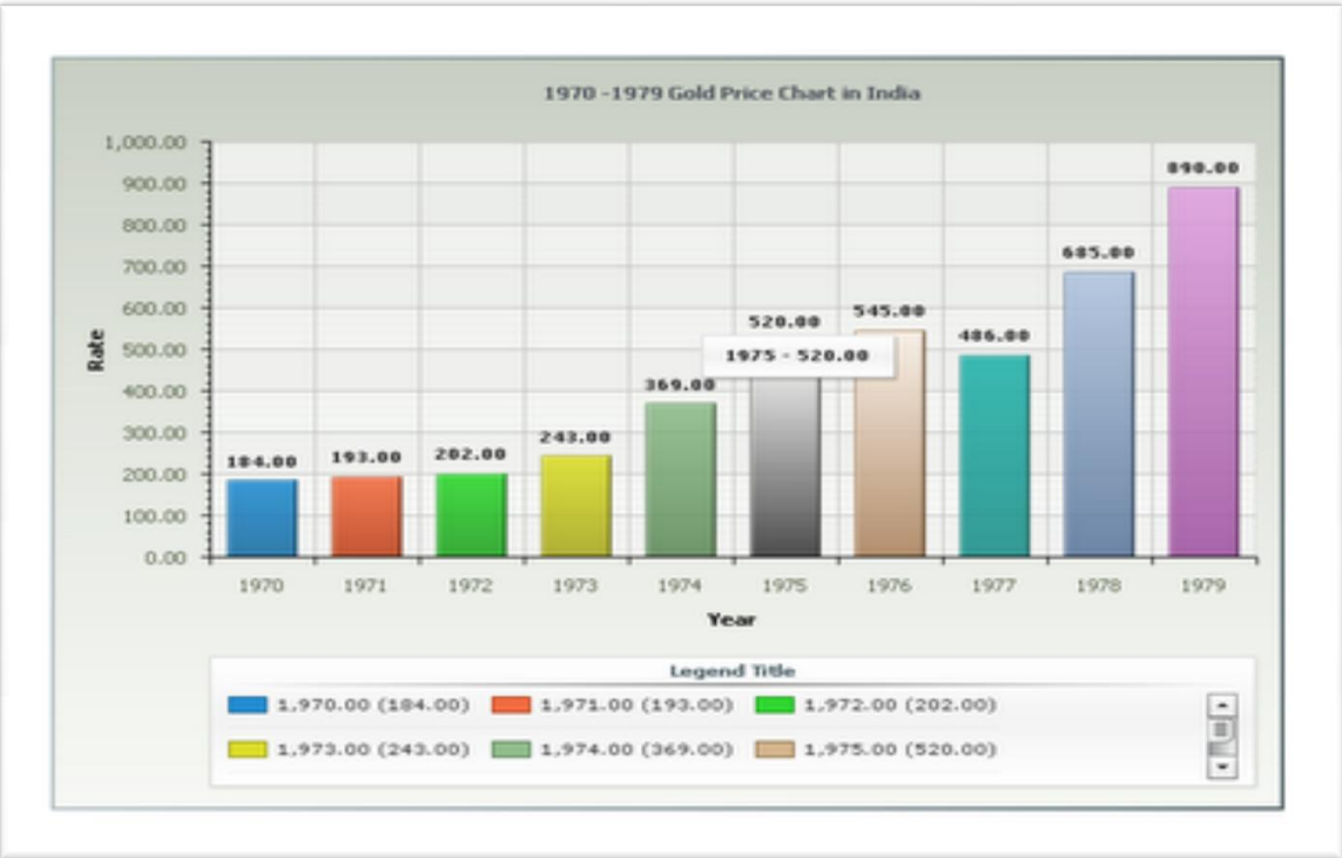


FIG 4: VOLATILITY OF GOLD PRICE DURING THE YEAR 1980 - 89

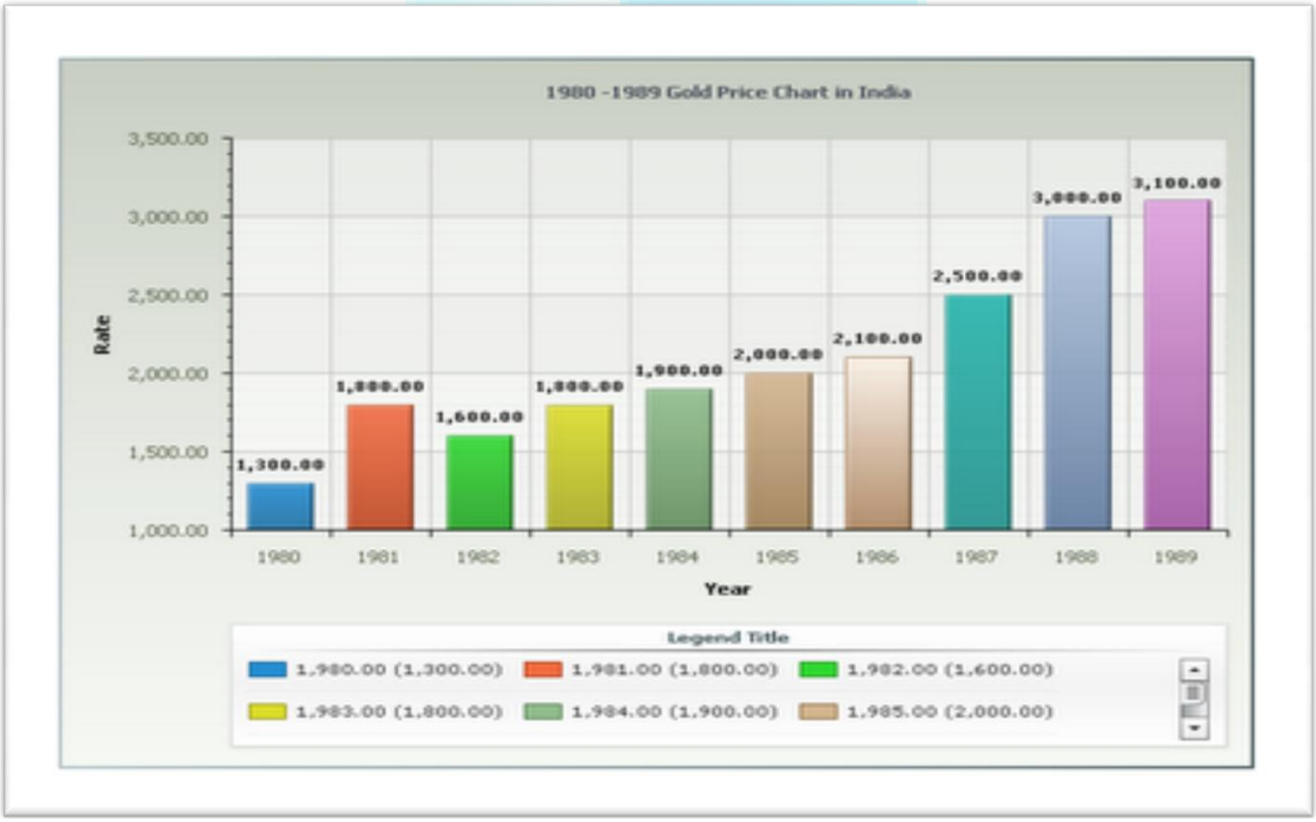


FIG 5: VOLATILITY OF GOLD PRICE DURING THE YEAR 1990 - 99

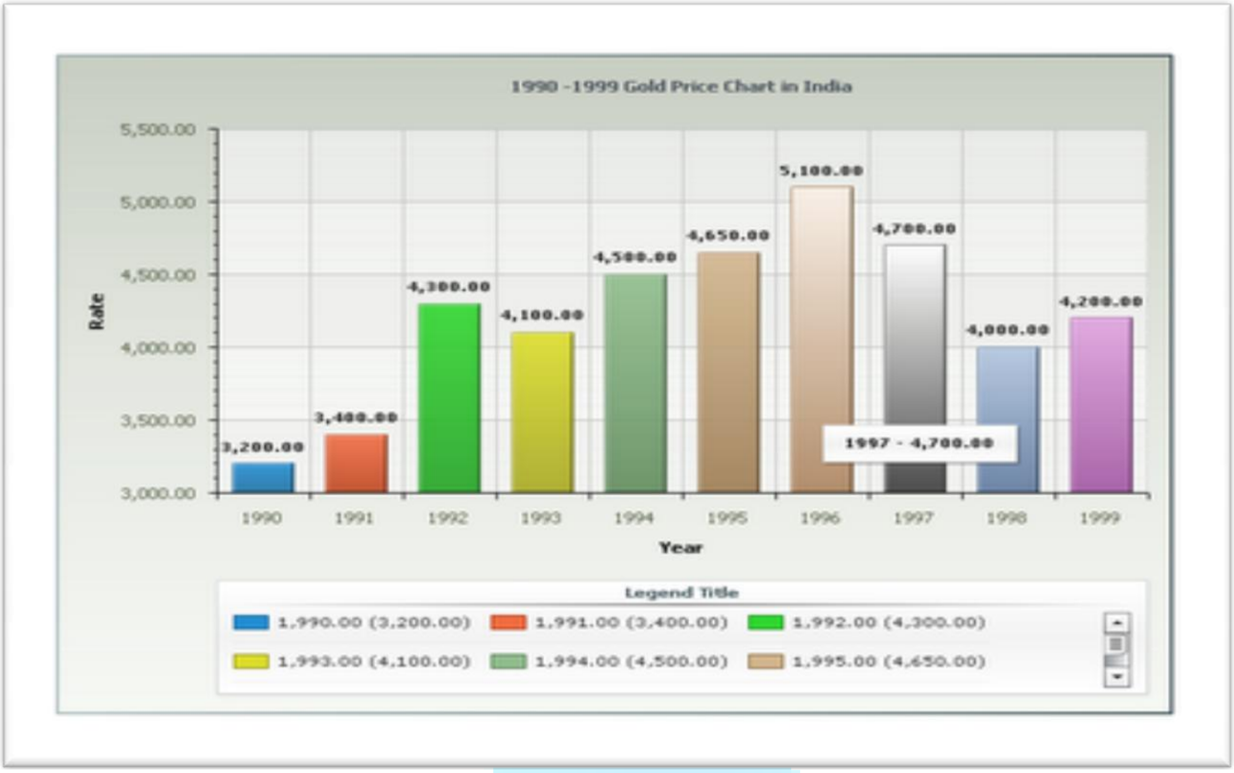
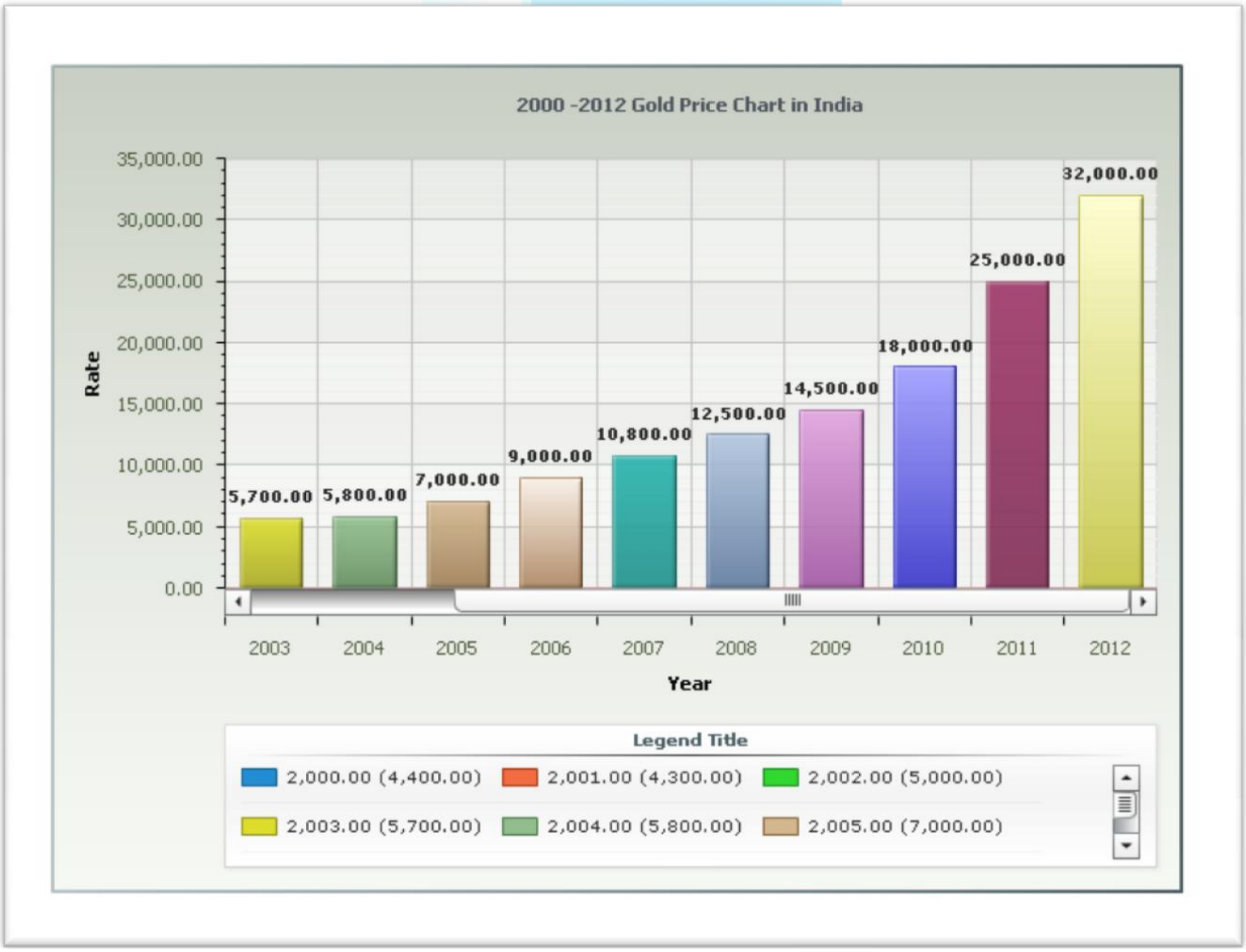


FIG 6: VOLATILITY OF GOLD PRICE DURING THE YEAR 2003 - 2012



CONCLUSION

From the above survey the gold price was fluctuating in nature. This fluctuation occur due to inflation and it affects the commodity market. In the year 2012 the Gold price become so high but it suddenly falls down which affect the commodity market because the demand of gold decreases in euro market. But this volatility is always short term. It is wise to invest in gold rather than share.

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