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GOLD JEWELLERY TREND IN INTERNATIONAL GOLD MARKETS

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ABSTRACT

This paper examines the trend of gold jewellery in international gold market and determinants of physical demand supply of gold. Recently the international gold market has attracted much attention and the gold price is relatively high compared to its trend. In this paper, historic gold demand from January 1980 to December 2014 is reviewed and the relationship between gold price and Euro, USD, Silver, Oil and S&P 500 index is analyzed. This study also applies the regression model and forecast the demand of gold jewellery. This study validates the model and estimates the gold jewellery demand for the next 5 years based on the yearly data of gold demand.

KEYWORDS

international gold markets, gold jewellery.

1. INTRODUCTION

The gold price, which hit a five-year low on July 20th 2015, reflects supply and demand right now, and also expectations about the future. The gold serves two purposes: it is a commodity (used in electronics, jewellery and dentistry, for example) and a store of value—especially as an insurance policy against political upheavals. But gold is unlike other assets in that it does not have a rate of return and the cost of storage could outweigh the benefits. For now, the gold and investors who favor this metal are in trouble. Gold rallied strongly after the financial crisis and has been falling ever since. As the supply and demand determines the prices of any economic resources, as the supply increases in the market, the demand will decrease and the price will come down. In the market, seldom do the perfect conditions as the buyers and sellers always influence the market price. In the present market, the factors like government regulations, monopolies and the modern marketing and advertising techniques also affect the pricing. In the present gold market, the supply contributes to the situation as the people are hesitating to sell their old gold which is of good quality. Also in a supply and demand economy, population and the purchasing power parity is important. China has, as of 2015, a population of 2.6 billion and India has a population of 1.25 billion which makes up almost half of the world. The private citizens, apart from the government of China, India, Brazil, Pakistan, Bangladesh, Japan, and Indonesia have a real thirst for gold. As per the international monetary fund, the Chinese economy, when measured by the purchasing power parity, surpassed the US. In the same way, the spending power of Indian consumers will be reaching 1.1 trillion shortly. As long as this power exists, gold price will continue to increase. Eventually, the production of gold will not be able to meet the demand and the price will be forced to increase, irrespective of the stock market, interest rates, and other economic factors. As the gold is measured in US dollar, the strengthening or weakening of Indian rupee will also influence the gold price in India. This will also influence the speculation in future price and the derivatives market. The most immediate reason for gold's woes is the strong dollar. Gold is priced in dollars, so if the American currency goes up, investors mark down the gold accordingly. Another factor for the rising of dollar is because of the revival of American economy that brings a hope for higher interest rate. The interest rate hike will also increase the opportunity cost of holding the zero yielding assets. Hence there will be a tendency to invest in treasury bills or other debt instruments rather than investing in gold.

1.1 INTERNATIONAL GOLD MARKET

Gold market has got a very ancient origin and the introduction of free gold market has transformed gold trading worldwide. The current international gold market is classified in to: 1) Cash Market (London's OTC and centered bullion market) and ii) Derivatives market (gold futures and ETF markets.) Gold Exchanges are there in all most all international financial centers and it has become an important part of financial markets internationally. Presently there are more than 40 international gold markets and it is forming the global market framework. The international gold market act as a core institution and local gold markets acts as its auxiliary. Among the important gold markets, London Gold Market, America Gold Market, Zurich Gold Market and Hong Kong Gold Market are the leading gold exchange markets. And London gold market prices have a greater influence on the world gold market price.

1.1.1 LONDON GOLD MARKET

London gold market has got a long history and in 1804, Amsterdam was replaced by London as the center for world gold trading. The London gold market was formally established in 1919. The price of gold was twice fixed in a business day and the participants in fixing the price consist of Barclays bank, HSBC, Scotia-Mocatta, and Societe Generale. The trading in New York and Hong Kong was effected by the price in London. In 1982, spot trading popularized in London gold market and in April 1982 futures market opened. The London bullion market is an over-the-counter market for gold and silver trading. The bullion is traded among members of the London Bullion Market Association (LBMA), regulated by the Bank of England. London gold is priced in U.S. dollars, using the unit of ounces. The purity of gold is denoted by millesimal fineness system. The fineness is a measure of the proportion of gold in a bullion bar and is expressed in terms of fine metal content in parts per 1000. The fineness is usually rounded to a three figure number, For gold, it consist of 999.999 (six nine fine) the purest gold ever produced, 999.99 (five nine fine), 999.9 (four nine fine), 999 (24 carat or three nine fine), 995, 990, 986, 958.3 (23 carat), 916 (22 carat) most widely used fineness.

1.1.2 AMERICAN GOLD MARKET

In 1970, the New York Commodity Exchange (COMEX) division of New York Mercantile Exchange (NYMEX), developed the American Gold Market. American gold market is mainly in gold futures trading; currently it becomes the world's largest trading volume and most active gold futures market. It is considered the most efficient and complex futures trading organization. The major trading objects of American gold market are gold, silver, copper and some financial derivatives, gold futures and gold options trading are in the first of the world, and are recognized as precious metals trading center. At present, the varieties transactions are gold futures, Mini options, options and funds. The New York Mercantile Exchange (NYMEX) is a commodity futures exchange. In 1975, the New York Commodity Exchange (COMEX) was starting the forward trading of gold, and became the center of the forward trading of gold in the world. In August 2008, it was owned and operated by CME Group of Chicago.

1.1.3 ZURICH GOLD MARKET

After World War II the Zurich gold market was developed. Since the 1960s, Zurich has become the world's second largest gold trading market. Zurich gold market has no formal organizational structure responsible for the liquidation by the three major Swiss banks: UBS, Credit Suisse and Union Bank of Switzerland. Zurich

gold market is without gold price fixing system. At any given time of each trading day, the trading price is agreed upon based on the supply and demand. Whole day fluctuation in the gold price on this basis is not subject to price limits restrictions. Switzerland is not only the world's largest new gold transit station but is also the world's largest private gold storage center.

1.1.4 HONG KONG GOLD MARKET

Hong Kong gold market has more than 90 years of history, and the most important is Chinese Gold and Silver Exchange Society (CGSE) which was opened in 1910 as the Gold and Silver Exchange Company and changed its name in 1918. Hong Kong Gold Market mainly consists of three parts: the Hong Kong Gold and Silver Exchange, which developed on the basis of the traditional gold market, the local London gold market, established by the London and Zurich branches gold dealers, as well as the Hong Kong Mercantile Exchange gold futures market. The CGSE plays an important role in Hong Kong's gold market. In the time difference, Hong Kong Gold Market fills empty time of the New York, Chicago and London markets. It can be coherent in Asia, Europe, and the United States, so as to form a complete world gold market, which promotes Hong Kong to become one of main world gold market. Hong Kong gold market is the only one area to have physical gold trading and the futures market.

The global gold market is across continents trading network with 24 hours of continuous operation. In addition to the above four international gold markets, Tokyo, Sydney, Dubai, Singapore, Mumbai, Rio de Janeiro, Shanghai are world famous gold markets

The demand for gold bullion in India and China is growing and the consumers continue to buy more. Though the consumption in India and China has increased, the price is going down. And besides India and China, there are other countries where the demand has gone up for gold bullion. When it comes to the direction of the prices for any commodity or stock, it usually comes down to the basics—supply and demand. For gold bullion, we are seeing supply come under pressure and demand increase.

2. REVIEW OF LITERATURE

Gold and silver have historically been seen as close substitutes for one another, both being precious metals that can be used to back currency and both having been used as currency. There is significant evidence (see for example Shishko (1977), Money, Affleck-Graves and Carter (1982), Sherman (1982), Landa and Irwin (1987) Aggarwal and Sonen (1988), Johnson and Soenen (1997), Egan and Peters (2001), Draper, Faff and Hillier (2002) and Adrangi, Chatrath and Raffiee (2003)) that these metals can play a useful role in diversifying risk, as well as being an attractive investment in their own right. Thus, one might expect that the prices share similar dynamics. More recently the focus has switched to collectibles made from these metals: see for instance Kane (1984), Koford and Tschöegl (1998) & Roehner (2001). However, there are also economic fundamentals that may act to drive the prices of gold and silver apart. While both are used extensively in industrial processes, there are significant differences between these uses. Silver is extremely reflective, a good conductor of electricity and has extensive use in optics and photography.

3. DATA ANALYSIS

The demand and supply of gold from 2004 to 2013 is given in table 1. The supply of gold is having a steady growth whereas the scrap is having a declining trend. Under the demand of gold, the jewellery has got more demand than the industrial fabrication

TABLE 1: WORLD GOLD SUPPLY AND DEMAND FROM 2004 TO 2013 (tonnes)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Supply										
Mine Production	2504	2561	2496	2499	2430	2613	2741	2839	2861	3022
Scrap	881	902	1132	1005	1350	1726	1711	1659	1634	1280
Net Hedging Supply	-438	-92	-434	-432	-357	-234	-106	11	-40	-48
Total Supply	2948	3371	3194	3071	3424	4104	4346	4509	4455	4254
Demand										
Jewellery	2619	2721	2302	2425	2306	1817	2034	2029	1998	2361
Industrial fabrication	418	440	471	477	464	414	469	458	415	409
Industrial fabrication of which electronics	266	286	31698	322	311	275	326	320	284	279
Industrial fabrication of which dental and medical	68	62	61	58	56	53	48	43	39	36
Industrial fabrication of which other industries	85	92	95	98	97	87	95	95	92	93
Net official Sector	-479	-663	-365	-484	-235	-34	77	457	544	409
Retail investment	361	412	427	442	915	825	1229	1569	1357	1778
Physical Demand	2920	2909	2835	2861	3450	3023	3809	4512	4315	4957
Physical Surplus/deficit	28	462	359	210	-26	1081	536	-3	140	-703
ETF inventory build	133	208	260	253	321	623	328	185	279	-880
Exchange inventory build	83	29	32	-10	34	39	54	-6	-10	-99
Net balance	-188	225	67	-33	-381	418	100	-182	-129	277

Source: GFMS, Thomson Reuters, (Net producer hedging is the change in the physical market impact of mining company's gold loans, forwards and options positions.)

TABLE 2: GOLD SUPPLY AND DEMAND IN 2013 AND 2014.

Supply	2013	2014
Mine Production	3060.3	3135
Scrap	1254.6	1175.9
Net producer hedging	-32.8	99.1
Total Supply	4282.2	4410
Demand		
Jewellery	2705.3	2480.9
Industrial fabrication	354.1	346.5
Total bar and coin demand	1702	1004.4
ETF and similar products	-916	-183.6
Central banks and other institutions	625.5	588.0
Gold Demand	4470.8	4236.1
Surplus/deficit	-188.6	173.9
Total Demand	4292.2	4410.0

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

TABLE 3: ABOVE GROUND GOLD STOCK AS ON 2013

Item	Quantity (tonnes)
Jewellery	85900
Official holdings	30500
Private investment	34400
Other fabrication	21600
Unaccounted	3600
Total	176000

Source: GFMS, Thomson Reuters

RECOMMENDATION AND CONCLUSIONS

From the study it was found that though the total demand of gold is decreasing, the demand of gold jewellery is gradually increasing. This study also indicates that the demand of gold jewellery in China and India is increasing and thereby the price will also be increasing in the near future. The continued poor performance of the stock market and increasing demand of gold jewellery are signs towards the increase in price of the yellow metal.

GOLD JEWELLERY DEMAND

CHART 1: THE DEMAND FOR GOLD JEWELLERY IN TONNES

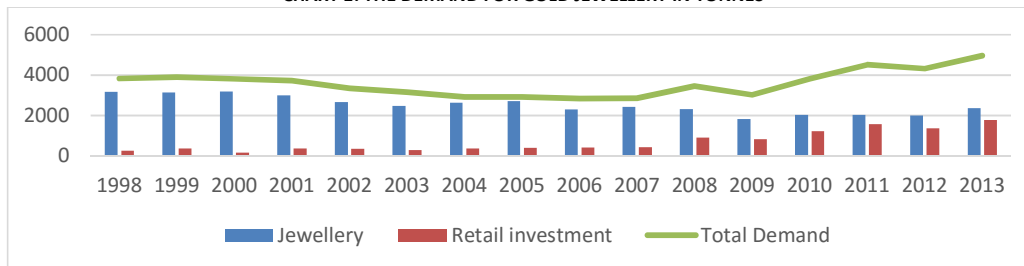
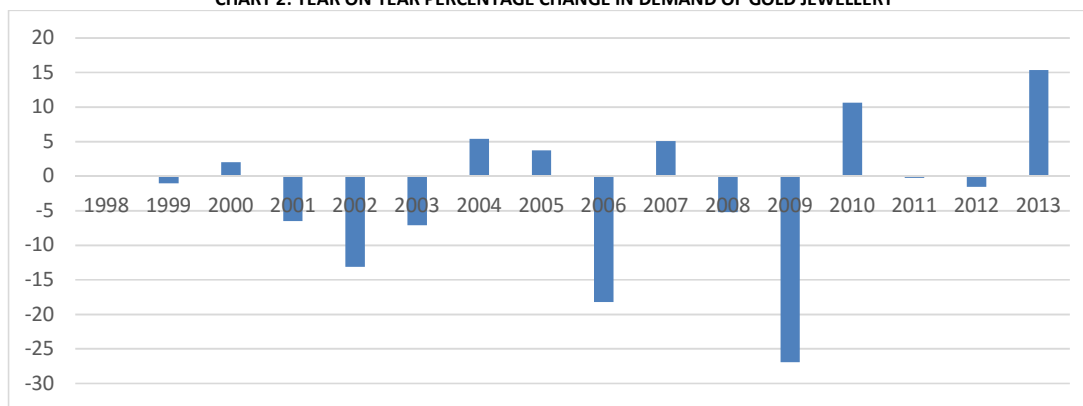


CHART 2: YEAR ON YEAR PERCENTAGE CHANGE IN DEMAND OF GOLD JEWELLERY



The chart shows that the demand for gold has decreased in 9 out of 16 years during 1998 to 2013.

TABLE 4: JEWELLERY

Mean	2514.6875
Standard Error	110.2743064
Median	2451
Mode	#N/A
Standard Deviation	441.0972257
Sample Variance	194566.7625
Kurtosis	-1.028247774
Skewness	0.201101837
Range	1379
Minimum	1817
Maximum	3196
Sum	40235
Count	16
Confidence Level(95.0%)	235.0441203

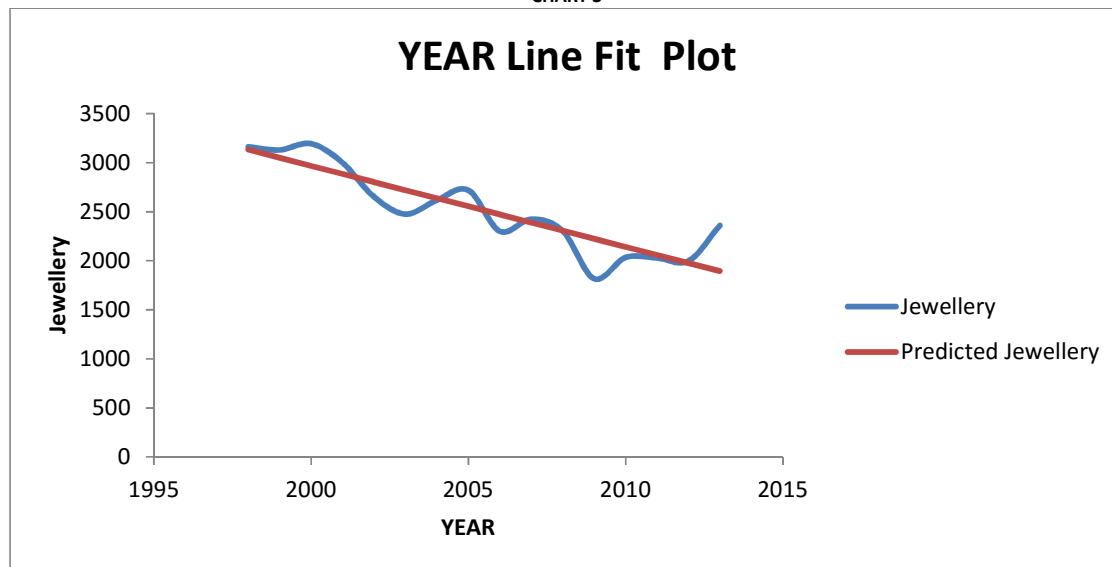
TABLE 5: SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.889426298
R Square	0.79107914
Adjusted R Square	0.776156221
Standard Error	208.6924995
Observations	16

TABLE 6

ANOVA								
	df	SS	MS	F	Significance F			
Regression	1	2308765.607	2308765.607	53.01102027	4.02683E-06			
Residual	14	609735.8309	43552.55935					
Total	15	2918501.438						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	167776.7353	22698.18836	7.391635518	3.39591E-06	119093.9631	216459.5075	119093.9631	216459.5075
YEAR	-82.40441176	11.31793987	-7.280866725	4.02683E-06	-106.6789785	-58.12984501	-106.6789785	-58.12984501

CHART 3



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