

Gold Will Remain Insulated



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THE USD is a close gold & jewellery industry had reasons to be happy always. It has kept withdrawn in our eastern big picture with gold known to be safe, and in the short-term metal loved by businessmen and hardcore silver. In little wonder that we are the world's largest consumers of gold with a share of 18 percent in global consumption, consuming about 1000 tonnes in 2011. And not to miss the fact that gold imports alone account for 80 percent of the current account deficit.

Recent developments: However, along with such strong factors favouring growth, there are some challenges as well. Over the last decade or so, gold has appreciated significantly and its impact was most felt in the last few

years or so wherein it appreciated at a CAGR of almost 10 percent. This has led to superhedging just about every other asset class. The key factors that triggered the sharp increase in prices included higher demand, strengthening rupee and an effective and dependable anti-inflationary holding to the hilt of a sluggish global economy.

In turn, higher gold prices led to subdued demand, though the wedding and festive season did prop up the sales. One impact was that though the volume of jewellery bought came down, its value did shoot up. Also, the higher prices led to a reorganisation of demand for light-weight yet elaborate looking sets, and also gave a fillip to diamond jewellery. But despite a steady gold demand led to hit losses in 2012, the second quarter of the year of decline. Fall in demand for jewellery can also be attributed to an increased demand for cars and motorcycles, particularly as a hedge against inflation and uncertainty.

Post November 2012, gold prices started to stabilize and this was reflected in the bumper for the yellow metal - the demand rose by 21 percent to 250 tonnes during the January-March period. Though it may result into lower operating margins for retailers, consumers loved it and started to throw the vendors to top jewellery thanks to a stable and sharp correction in prices.

Why should and opportunist? Gold is why too. Surely, insulated in our as-

ual, essential and cultural fabric, and is deemed to be insulated against while in the foreseeable future. The recent fall in the prices has resulted in the re-launching of a strong wave of demand, and with an improving economy, it is likely to be sustained strongly.

Organized retail seems particularly promising as the share has risen from a low of 5 percent to approximately 10 percent in recent times. This is a result of the transparency of operations that it is required offers, along with superior service and wider array of designs. The trend is likely to strengthen in the coming times. Another wave of opportunities lies in harnessing the semi-urban and rural markets which account for 70 percent of total consumption.

Jewellery export market presents another rewarding opportunity as a result of the higher margins it offers. With India's expertise in the jewellery designing craft and availability of low weekly priced labour, offers on this front promise to be well-rewarding.

Discount jewellery has traditionally lagged behind, but with their prices becoming more affordable and the gap between gold and diamond prices narrowing, this segment is looking up very well. The positive signpost of the same lies in a finding favour with it, and the heightened marketing attention given to this segment is only increasing the prospects.