

The shiniest of all

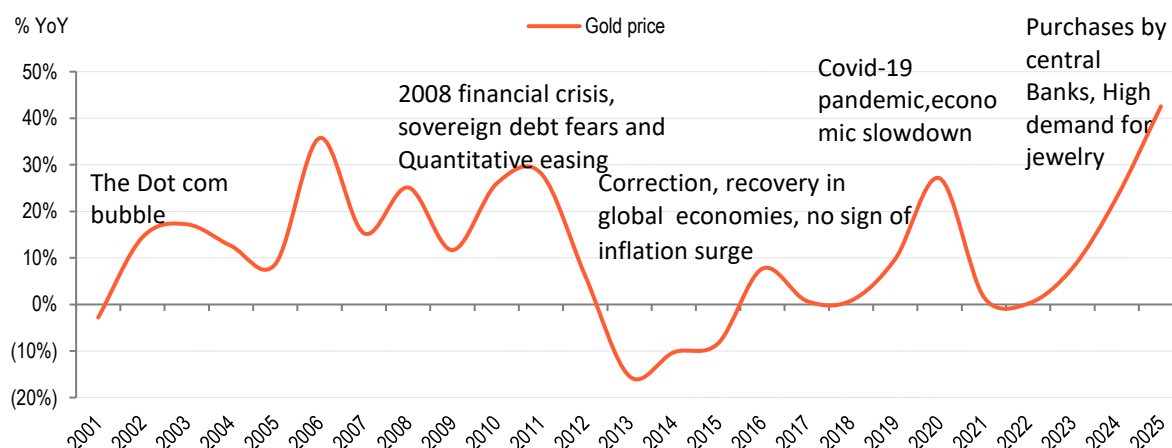
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The role of gold in the financial markets especially in the monetary system is well known. The Gold standard monetary system was used back in the 18th and 19th century where in the money supply used to be linked to gold. However, the system faced some disruption during the World war and was eventually out of place after the great depression of 1929. The international convertibility of gold to dollar was abandoned in 1971. Despite this, gold remains a crucial commodity and continues to play an important role. Previous Fed Chairman, Ben Bernanke had once referred to the gold prices as an indicator that represents the health of the economy. Over the years, it has served as hedge against inflation and used for portfolio diversification especially in volatile times. It has been considered a safe haven asset.

Global gold prices in the last 25-years have hovered in the range of US\$ 280 to US\$ 3400 per ounce. This year, it has even crossed the US\$ 4500/ounce mark. In terms of CAGR, gold prices have risen by 16% between CY00 to CY10. For the next 10 years, the growth was a marginal 3.7%, signaling the extreme volatility in the metals market. Since CY20, the global economic landscape has changed and in the last 5-years (till date), in terms of CAGR, prices have surged by 14% in this short span of time.

Figure 1: Global gold price movement



Source: Bloomberg, Bank of Baroda Research

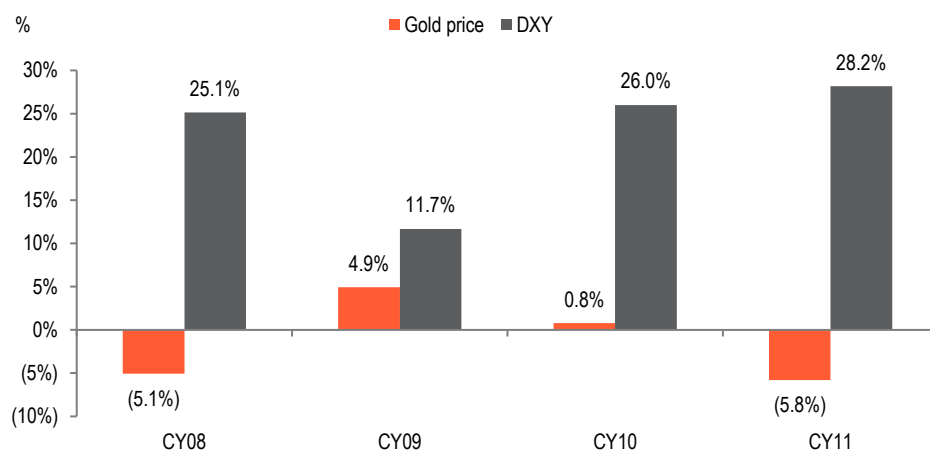
Gold prices through the years:

-In early CY00 and CY01, gold prices had plummeted down to (-) 2.8%. The US economy saw the dot-com bubble during this period and the prices fell during this period in a surprise move, given the stronger dollar and much against the general theory of safe haven. However, these prices rebounded, with average growth of 15% between CY02-CY04, amidst the US Fed beginning with its rate cut cycle.

-Gold prices in CY08 accelerated to as high as 25.1% from 15.3% in CY08. The prices moderated marginally, while clocking double digit growth in CY09 by 11.7% and rebounded yet again with a

growth of 26% in CY10. The average gold prices between CY08-CY11 registered a growth of 23%. The global economy during this period had witnessed the Financial Crisis, wherein the global markets tumbled, with US equity indices down by more than 50%. The period resulted in global economic slowdown and some countries even noted a recession during this period.

Figure 2: Gold and DXY inversely proportional



Source: Bloomberg, Bank of Baroda Research

As per the Fed, the US economy, had fallen by 4.3% from peak to trough, with the slowdown lasting for over 18-months, post the crisis. The unemployment rate during this period had doubled to 10% (from 5%). Global central Banks sprang in to action, US Fed began with the quantitative easing programme with the objective to infuse liquidity in the system. Also, the Fed jumped in with accelerated rate cuts, from 4.5% back in CY07 to the range of 0-0.2% range in the next few years. Amidst such conditions of economic contractions, weakening dollar (average dollar index declined by 1.3% between CY08-11) and monetary easing, pushed investors towards safer asset, which was gold during this volatile period and the prices surged.

-In CY20, the global economy was rattled, as the world went through the Covid-19 pandemic. In this year itself, when global equity indices tumbled, gold prices yet again skyrocketed by 27.1%, while DXY index slipped by 1.6%. However the gold prices moderated for the next 3-years, coming off the high base and other factors as the global economy recovered.

- Notably, in the last 2-years, the prices have yet gain accelerated, with this year itself touted to give more than 40% return (till date), on the back of factors such as higher purchases by global central banks, greater demand for jewellery for investment and other such purposes. The uncertainty with regards to tariffs and evolving dynamics on trade deal with other countries, has been one of key factors behind this surge.

The India story

India is amongst the top 5 importers of gold which also includes other countries like China, UAE, Switzerland and South Africa. For India, it even plays an important role in exporting gold jewellery. It holds both cultural and religious significance in the country.

The huge demand for gold and dependence on imports can have adverse impact on current account deficit. To mitigate the same, the gold monetization scheme was launched by the Government back in Sep'15. As per the scheme the residents could deposit minimum 30gm of gold under the scheme, with deposits across short (1-3 year) bank deposit, medium (5-7 years) and long term government deposit (12-15 years). The objective was to deposit idle gold and earn interest on the same.

In Feb'21, the scheme was modified with minimum deposit lowered down 10gm (from 30gm previously) and additionally investors could earn 2.25% and 2.5% interest on medium and long term deposits respectively. This was done with the objective to incentivize investors and make the process more attractive and accessible. Furthermore, even banks could now participate in such scheme and could also provide gold metal loans to jewelers. This was the gold metal loan scheme which moved in tandem with the gold monetization scheme. Under this, businesses could also use the gold they had deposited to use get funds for activities such as jewellery making. In FY20, the total bank cumulative gold mobilization was 13.2 tonnes, with SBI leading the pack, followed by HDFC bank and others. In Nov'24, over 31,164kg of gold was monetized under the GMS scheme, with short term (7,509kg), medium term (9,728kg) deposit and long term (13,926kg) deposits. More than 5600 depositors had participated in the scheme. However, in Mar'25 both the medium and long term deposit was discontinued due to evolving conditions and changing macroeconomic landscape. By this time, around 37.8 tonnes of gold was mobilized as per ministry of finance.

In the last 20-years, gold prices in India have hovered in the range of Rs 23,000-Rs 3,00,00 per gram. Gold prices have a positive correlation between prices and gold imports. Any change in the price of gold is expected to have significant impact on not only currency but even on CAD (Current account deficit).

In the span of over 25-years, there is positive correlation (0.5) between the gold imports and exchange rate. Generally, higher gold imports is expected to put downward pressure on currency, resulting in depreciation. Apart from the period, 2007-10, wherein the correlation between gold imports and INR was negative, it has been noted that correlation between these two variables have largely been positive over the years. A confluence of various factors are responsible for gold price surge, though it is interesting to find some relation between the currency, gold imports and gold price.

India's average gold imports rose to as high as 28% for the period 2001-10, while the currency marginally depreciated at this time. During the year 2010-15, the currency depreciated by 4.3% while average gold imports edged up by 10.4%. It was during this period (Aug'13), the government had started the gold import scheme, also called as 80:20 scheme, under which as part of the import restriction measure, importers had to re-export at least 20% of the gold while they could sell 80% of the imports. The scheme was withdrawn by Nov'14. Notably, the gold imports inched up further in the next 5-years, while currency continued to depreciate. Since the covid-19 pandemic and till date, average gold imports have registered a double digit growth while the INR has depreciated during this

period. Movement of currency is dependent on the interplay of various factors and higher imports acts as one amongst those factors.

Table 1: Coefficient of correlation

| Correlation | 2001-06 | 2007-10 | 2010-15 | 2015-20 | 2020-25 | 2001-25 |
|----------------------|---------|---------|---------|---------|---------|---------|
| Gold Imports and INR | 0.7 | -0.4 | 0.7 | 0.5 | 0.6 | 0.5 |

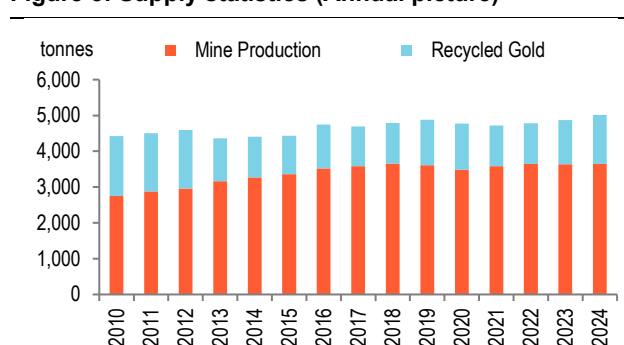
Source: Bloomberg Bank of Baroda Research

For the period (2015-20), Government launched the sovereign gold bond scheme, an investment tool which served as a substitute for physical gold, as it will be held in demat form along with much higher interest rate for investors. The scheme had a 5-year lock-in period and was exempt from the capital gain tax. Under the scheme, an individual can buy 1gm to a maximum 4kg of gold every year. Additionally, an interest of 2.5% would be paid on the investment. Till FY25, government had mobilized 147 tonnes of gold in 67 tranches and had to pay an equivalent of Rs 72,735 crore based on the gold bonds issued. Moreover, higher gold prices in the last few years has resulted in higher borrowing cost for the government and this pushed the government to discontinue the scheme in Feb'25.

Demand and Supply of Gold

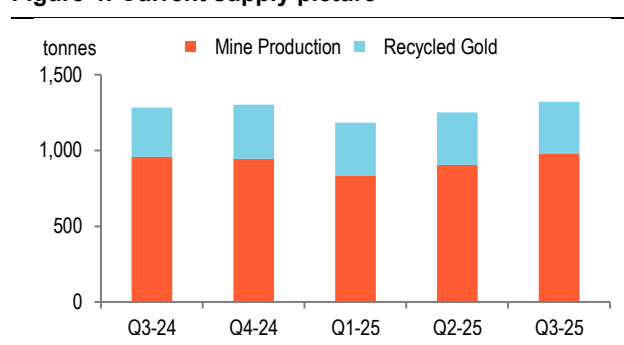
As per the World Gold Council, the supply of gold rest on the following factors: mine production and recycled gold. The total supply of gold at around 4957.3 tonne has been far lower in CY24 than the previous year. Mine production has been relatively steady in the last few years, while growth in recycled gold has inched up for the same period. The mining industry has been facing its own set of challenges, based on stringent regulations, embracing environmentally sustainable methods and logistics issues. In the recent times, both mine production and recycled gold have registered a strong growth in Q3CY25. Recycled gold supply was at 344.4 tonne this year against 324.8 tonne in Q3CY24.

Figure 3: Supply statistics (Annual picture)



Source: WGC, Bank of Baroda Research.

Figure 4: Current supply picture

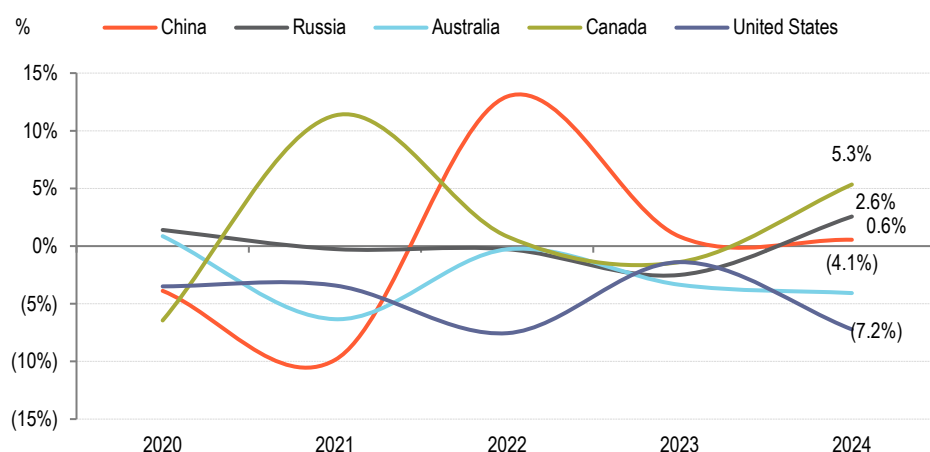


Source: WGC, Bank of Baroda Research.

Gold Mining

Globally, China has been the largest producer of gold in CY24 and contributed 10.4% share to the total production. This is closely followed by Russia with 330 tonnes (9%) in CY24 and Australia with 284 tonnes (7.8%) for the same period. The figure 5, notes changes in gold mine production in the top 5-countries in the span of last 5-years. Interestingly, while mine production has fallen deeply in US and Australia, there has been noticeable growth in Canada, Russia and China in CY24 when compared with last year.

Figure 5: Growth in gold mining production



Source: WGC, Bank of Baroda Research

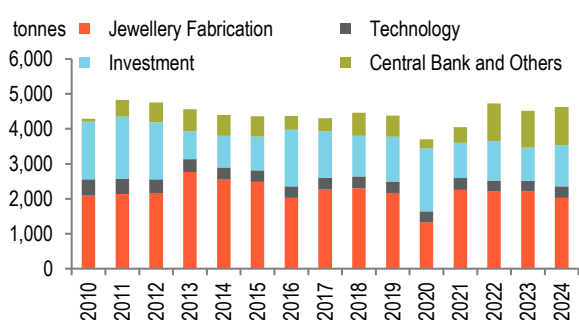
Demand of Gold

The demand for gold has been based on the following factors including :

- Gold jewellery is one of the biggest contributor to gold demand. Despite being the highest contributor, the jewellery fabrication in terms of tonnes have noted some slowdown as it moderated to 2026 tonnes in CY24 from 2544 tonnes in the CY14, partly owing to higher prices.
- Investment demand: These include bars and coins along with other investment products such as ETFs. In CY24, the investment demand has registered a solid growth of 24.2% after declining by 15.5% in the previous year. The demand had accelerated by over 40% in CY20 (covid-19).
- Central Bank holdings and other institutions: The demand has remained steady with sharp acceleration noted in both CY21 and CY22, amidst ongoing geopolitical conflict and uncertainty in global markets.

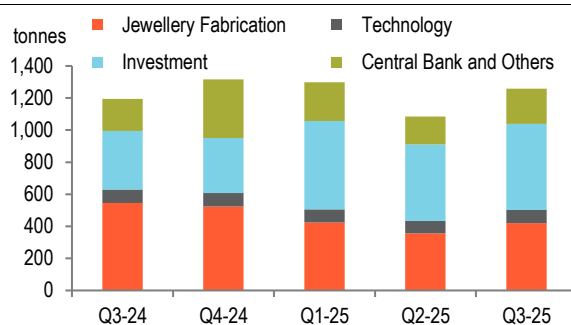
In Q3'CY25, the demand for gold has seen the highest change across factors such as investment, registering a growth as high as 47% and 10% for central banks holdings compared with same quarter of last year. On the other hand, slower demand has been noted for jewellery and technology component.

Figure 6: Demand statistics (Annual picture)



Source: WGC, Bank of Baroda Research

Figure 7: Current demand picture



Source: WGC, Bank of Baroda Research

Central Bank holdings over the years

Amidst the backdrop of escalating geopolitical tensions, gold turns out to be one of the most attractive tool for the nations to insulate themselves from various financial and political risks. As per the gold council, central banks holds one-fifth of all the gold reserves that have been mined. In the last 5-years (table 2), we see some Central banks that have more 50-60% of the reserves as part of gold holdings has steadily increased over the years. Moreover, the pick-up has been sharp in the last 2-years, given the weakness around dollar index, new US President at the helm, simmering geopolitical conflict. India's gold holdings have doubled in last 5-years to 15% from 7% back in CY20. This is majorly due to higher gold prices. As of date (12 Dec), RBI's gold holdings have risen to US\$ 107.74bn and the share of gold in the total forex reserves have reached to the 15.6% mark.

Table 2: Central Bank-Gold holdings as % of international reserves

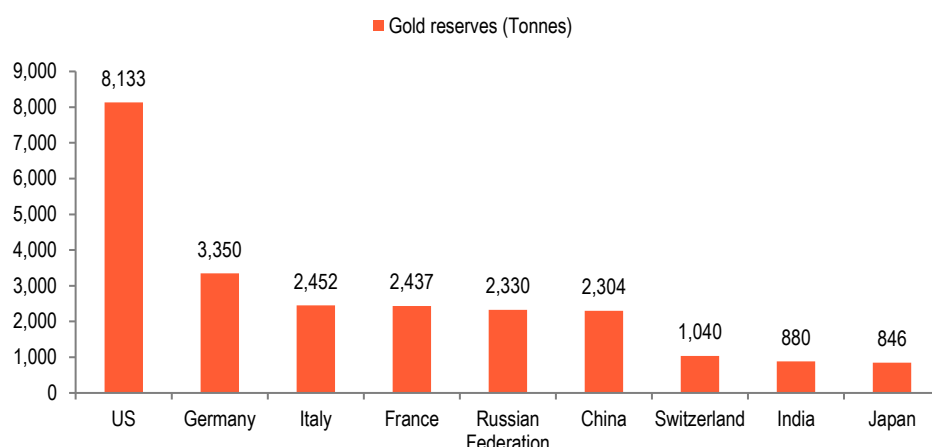
| Countries | 2020 | 2021 | 2022 | 2023 | 2024 | Q3-25 |
|-------------|------|------|------|------|------|-------|
| US | 78.7 | 66.3 | 67.1 | 69.9 | 75.0 | 80.4 |
| Germany | 76.1 | 66.3 | 66.5 | 69.1 | 74.4 | 80.4 |
| Italy | 70.7 | 62.9 | 63.6 | 65.9 | 70.8 | 77.0 |
| France | 66.0 | 58.2 | 58.6 | 67.3 | 72.3 | 77.7 |
| Netherlands | 69.0 | 55.4 | 56.4 | 58.3 | 64.9 | 70.7 |
| Kazakhstan | 66.1 | 68.3 | 58.4 | 54.4 | 52.0 | 68.9 |
| Portugal | 78.9 | 68.6 | 69.2 | 72.2 | 75.7 | 80.2 |
| Uzbekistan | 57.9 | 59.7 | 64.5 | 71.4 | 77.8 | 80.5 |
| Austria | 55.9 | 48.1 | 49.3 | 59.7 | 66.3 | 71.3 |
| Cyprus | 68.3 | 50.3 | 48.5 | 51.7 | 55.9 | 63.3 |
| Greece | 58.0 | 46.0 | 55.2 | 55.9 | 63.2 | 63.9 |
| Belarus | 40.7 | 36.9 | 39.7 | 44.3 | 50.7 | 49.4 |
| Kyrgyzstan | 36.2 | 19.9 | 34.2 | 44.4 | 62.9 | 66.9 |
| India | 7.0 | 6.9 | 8.1 | 8.6 | 11.4 | 15.2 |
| China | 3.5 | 3.3 | 3.6 | 4.3 | 5.5 | 7.7 |

Source: WGC, Bank of Baroda Research

Figure 7 shows, the top 10-countries with highest gold reserves (tonnes) in Q3CY25, with US Fed having reserves as high as 8,133 tonnes and Japan with 846 tonnes, India too feature in this list with over 880 tonnes of gold reserves in the same period, a record high. Interestingly, due to higher prices, India's gold accumulation in the last few months have been noted in 4-months in CY25, while it is still at a record high.

Most of US gold is stored either at Fort Knox or with the New York Federal reserve. Bank of England is the 2nd highest custodian of gold reserves across the globe. RBI has also kept part of its holding with BoE, which is a standard practice. Though, in the last few months RBI has been actively working towards bringing back its gold reserves to the domestic vaults, given the unprecedented volatility in the global markets.

Figure 7: Top 10-Central Banks with gold reserves in Q3CY25



Source: WGC, Bank of Baroda Research Note: Switzerland last available data for Q2

Conclusion:

Gold prices have managed an exceptional return in CY25, registering a growth of more than 40% as the prices even surpassed the US\$ 4500/ounce mark in a session in Dec'25. There have been different variables at play that resulted in this acceleration, including but not limited to dollar weakness, lower rates, heightened geopolitical tensions, tariff related uncertainty and higher buying by central banks.

Even from investor point of view it has outperformed other asset classes, be it equity or fixed income market. The demand for gold ETFs have also noted a steady pick up in the last few months. Going forward, if the following conditions are retained: a) reduced demand for dollar, b) easing policy, c) cooling inflation, d) persisting geopolitical conflicts coupled with trade related uncertainty and slowdown in US economy, the prices of gold is expected to rise further. On the flip side, any form of stability that can lift global growth higher, improve the demand for currency, push inflation higher and nudge Fed to hold or hike rate, will result in reflation and shift towards the risk-on sentiment which will offer some correction in gold price.

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