

News Roll



Gold Loses Sheen Post Poll Results

Gold prices have been falling post general election results. Here's what to do

As we go to the press, gold has dropped nearly 5 per cent since the election results were declared on 16 May. While the stock market has hit a new high thanks to the euphoria, is gold suffering a reversal of fortune, which had been riding high in the recent years?

Experts indicate a casual link between strengthening of the rupee and gold prices. On 23 May, the rupee appreciated to 58.5 per dollar. Says **Vikas Gupta, executive vice president, Arthveda Fund Management**: "Gold is falling in dollar terms and rupee is likely to remain strong for several weeks until the euphoria lasts."

There are other factors at play, too. Post election results, gold import restrictions were also eased. Many trading houses, which

were banned from importing gold, have now been allowed to import the metal. Says **Somasundaram P.R., managing director India, World Gold Council**: "This is a welcome development and a phased approach to eventual removal of curbs on gold imports. This is expected to increase official supplies." Also, this is likely to lower the disparity between Indian and international gold prices, besides big premiums, which are already falling. Says **Harshal Barot, analyst, precious metals and energy, Motilal Oswal Commodities**: "The biggest component of the decline starting 21 May 2014 was the drop in premiums which had jumped abnormally over the past few months due to a lack of supply in the physical markets. Gold premiums on the Multi Commodity Exchange of India (MCX) which have averaged around ₹1,180 per 10g since August 2013 fell to ₹534 per 10g, almost a 50 per cent drop."

Gold prices are expected to fall further in the near term. However, the fall might not be as steep as seen in the recent past. Says **Naveen Mathur, associate director, commodities and currencies, Angel Broking**: "Correction in prices will give an opportunity for bargain investors to chip in creating incremental demand which in turn will support prices."

In the international market too, gold and silver prices have been dropping on the back of optimism about the US economy. Says **Vikas Vaid, product head, commodity and currency, Prabhudas Lilladher Group**: "In the wake of the US economy bottoming out, we expect gold bear trend to resume subject to geo-political risks."

What you should do. Don't rush to buy gold. Adopt a wait-and-watch approach till the new government settles in and implements reform measures. Systematic investment plans (SIPs) in gold might be the best way forward. Consider reducing excess exposure to gold and silver if they form a big part of the portfolio. Also, consider optimising the allocation between investment categories by reassessing asset allocation. Excess money from gold and silver portfolio pruning could be allocated to well-chosen equities. ■

KAVYA BALAJI