# Demand and supply of gold in india

“ Demand is the relationship between price and quantity demanded for a particular goods and services in a particular circumstances . For each price the demand relationship tells the quantity the buyers wants to buy at that corresponding price . The quantity the buyer wants to buy at a particular price is called the Quantity Demanded.”

“ supply is the directly proportion of price when the price of the commodity is increased then the supply of that product also increase or visa- versa.”

## ON THE BASIS OF GOLD COMMODITY:-

In the relation of gold the demand cannot affected or doesn’t matter of price, demand and supply because it is luxurious product and they always usable for functions and many of areas. The price of gold is increases demand then the demand and supply also occur in positive range.

The term can be movable as follows:-

When the price is increases then the demand and supply can movable in upward direction.

When the price is decrease then then the demand and supply can change because the demand is high and supply will be decreases in range.

The main concept is started from here to analyze the demand and supply of gold in India. The price is the main factors which can be changing whole style of product sale in the market but gold is a luxurious product and the price does not matter there they r directly based on the willingness to buy the products.

This is analyze on the basis of previous data when the price is 17000 rs. In india and what about the demand and supply of the gold in market this will shown as follows:-

It schedule is rougly showing to how the relation between price , demand and supply that will be arises on same direction this is only for gold product not for other . It is the concept demand curve is always downward slope and the supply curve move on upward . it means when the price of commodity is increase then demand is decrease and the supply is also increases but in that condition the demand and supply moved in same proportion .

## THE MAIN OBJECTIVE OF GOLD DEMAND AND SUPPLY ARE AS FOLLOWS:-

When the price is automatically increased in year 2005 then the consumers are simultaneously struggling.

In present time the market price of gold is 19, 171 Rs. Per 10 gram , after hitting a record high of 19, 257 rs. Earlier in next week.

In the time of festiwal the price is increase then the consumer is struggling to buy but in small range capacity.

Basically in the seassion of dhanteras , diwali the demand of gold is high and the consumer can buy without any price problem.

## BRIEF DISCRIPTION ABOUT HIGH PRICE CUT DEMAND:-

This condition doesen’t seen in the gold market because when gold was a “ barbarious relic” the gold price stood at just 12000 rs. In that condition the various changes are coming in the gold and silver market according to as follows:-

## A CHANGE IN THE NATURE OF THE GOLD INVESTORS

JEWELRY

At the turn of the century , the jwelery and industrial gold buyers , alongside rural , agicultural Indian demand, dominated the gold price. In a developed country the gold was not bought for itself and its importance. That condition the major role basically in jwelery, often the cheaper part of piece of jwelery. in that time the prices cannot rises in that much, in that condition the gold price is high . it means when the price of gold is high then the buyers are low. The buyers are still there, but they want in small volume or range due to high price of that commodity. In that condition the market are focuses in middle class person to increase the capability power and creat high growth

INDIAN DEMAND

When they targeted to middle class family to increase the demand in that level of customer mind to focuses in that level of customer. The market wants to increase the efficiency and they also aware that gold is traditionally valuable in india and they aeare that customer can easily brought due to the need and knows the condition of market.

After that marketers can expect that the price of gold is higher then doesn’t affect in that market strategy because it is the investment terms which is basically effort by Indian customers. They always analyse that when the price is high then it affect in supply terms.

WESTERN JEWELRY , COIN AND BAR DEMAND

According to the analyser to analyse that in tradition the gold market cheap jewelry basically invested in to coins and small bars is and they analyse to investing in that areas of Indian market. the Demand ofr gold is always protect the wealth andprotect the mony market loss to maintain and equal balance generated. The marketers also seen the quantity and quality of demand dropped initially, as jewellery demand always decline or down faced in the market but is now gathering pace and actually increasing on both fronts, especially if the marketer add the small coin and bar demand to it then the gold moves up the ladder of exclusively and expensive decorative items again higher quality gold jwelery demand (accepting high prices) is growing again. At the last the marketer seen that the demand of jwelery is always increases. And generated high efficiency in the market.

## 2. A WIDENING IN THE NUMBER AND SIZE OF GOLD INVESTORS

GOLD EXCHANGE TRADED FUNDS

The size of the market is high and large number of investors in the market and always want to increase the return in future trend. In the modern changes the market price of gold is always high but no effect in the consumption power they always choosen gold and buy for future trend because it always slope in downward. There are so many factors which changes the consumption and buying power of customers the main factors are as follows like income and price . the price of gold is simultaneously increases but demand is also movable in same directions.

CENTRAL BANK

The story of central banks and gold is a sad one. As both politicians strove to establish a doctrine that paper currencies, with no gold backing, better serve as money then gold does. By persuading people that central bankers were capable of being a satisfactory and the gold was a barbarous relic that had no place as money, they sanctioned dual policy of selling and sidelining gold as mony and accelerating the supply of gold to the point that the easy gold picking were exhausted . now central banks have had to revert to their underlying belief that gold is a vital reserve assts , particlurly when drems fade and realities take over .

Higher price in their case have led to a cessation of sales and subsidential buying.

## SWITCHING FROM OTHER MARKETS TO THE GOLD MARKET

As a gold and silver prices rise just like a thermometer measuring global financial uncertainity and instability , more and more investors are ntering these markets for the first time, not for profit . , but for protection against such fears and in an attempt to preserve the wealth they have. These investors come from the entire spectrum of investors across the length and breath of our world. This is the quintessential reason why demand for gold will rise as gold price rise.

## WHY ECONOMISTS USE ELASTICITY

“ Elasticity means degree of level changes in the particular commodities is called elasticity”

But here, we are discussed about changes in the demand and supply of gold in demand and what are the various tools to find out the degree of demand of gold in india.

THE BASIC USE OF ELASTICITY IN ECONOMISTS AS FOLLOWS:-

Economist wants to compare gold demand all the times.

Is gold demand more price sensitivity then silver demand .

Is the supply of gold is equal.

An elasticity is a unit- free measure.

By comparing market using elasticity it does not matter how we measure the price or quantity in the Indian market.

Elasticities allows to identify the differences among markets without standedizing the units of measurement.

## THE ELASTICITY OF DEMAND MEASURE BY AS FOLLOWS:-

PRICE ELASTICITY OF DEMAND

INCOME ELASTICITY OF DEMAND

CROSS ELASTICITY OF DEMAND

# PRICE ELASTICITY OF DEMAND

Degree of level changes by the price of commodity . the gold commodity is directly not affected in the demand because it is a luxurious goods.

According to the gold the descriptions are as follows

Gold price have been rising this year and this is the news that dominates in newspapers . The last time gold prices rise at such pace was in 1980. In fact gold price never touched the hights they had reached in 1980 and in fact were at their lowest in he year 1999. The first point is to be noted is that both gold and oil prices move in together . both were at their highest in 1980 and while oil has become far more expensive that it ever was , gold prices still not a very high compare to where they were in 1980. The prices are taking in high price adjusted for inflation and not the nominal prices that we see going up year after year.

SECOND POINT to note is that gold prices elasticity is negative . Higher the price of gold, higher is the demand for gold. This is a unique feature of gold , as many other commodity whose prices go up sees lowering of demand . When prices rise the most that the demand is the highest, pushing up prices further. In the year 2007 , gold prices went up by nearly 20 % compared to price in 2006 . Demand for gold went up by nearly 5 % . when people say prices goes up , they normally tend to consume less of the good, including essential items like oil and petrol.

The nominal price always stay above the previous price, therefore gold is never seen as a risky investment compare to real estate, the share market and the money market.

Gold is a unique metal . it has been the most attractive metal for thousands of year. The roman empire and the Egyptian civilization were known to have used gold more then 2000 years ago.

India is a growing primarly country because of income growth in the country leading to higher purchases of jwelery .

When the recession subsides and the industry looks up and real estates prices rise again gold price should come down from the heights they occupy today.

## SO GOLD IS SAFE INVESTMENT ?

THE ANSWER IS CLEARLY YES. AS gold prices do not come down in nominal terms . however as the economy improves and other forms of investment become attractive , the return on gold come down drastically and may sometimes in real terms become negative . however jewellery has a sentimental value attached to it too, therefore even when price come down , people remain proud of their gold purchases . Buying gold makes sense during the time the rest of the economy is receding, but when economic growth and industrial growth is handsome . like in india now, investing in gold might deliver the lowest returns that one could have obtained . however , this return is in all likelihood is risk free, therefore it makes sense for those who like to avoid risk . it is important to remember that usually higher the risk , higher is the rate of return for any investment.

At last it is simply explain that the price of the commodity is increase then the gold is not affected because it is type of investments in the market and always given positive return . so it is future profit generated investments which is always given better and high return to the customers.

THE MAIN ADVANTAGES OF THE GOLD AND NOT AFFECTED PRICE AS FOLLOWS:-

THEY ALWAYS GIVEN POSITVE RETURN TO THE BUYERS

IT IS THE INVESTMENT FOR FUTURE BENEFITS

THEY ALWAYS GIVEN POSITIVE GROWTH PRICE IN THE MARKETS.

THE PRICE CAN NOT AFFECT TO BUY THAT PRODUCT.

## INCOME ELASTICITY OF DEMAND

“ As a person’s income rises , he or she can buy more goods at a given price at any particular time . but the ability to buy more goods does not necessarily imply the willingness to do so” .

It means when then the consumer’s income is rises or dicreases then directly affected to consumption capacity. If the demand of the goods rises as income rises, then that good called a “ normal goods” . Also the demand for the normal goods falls as income falls . the demand for a normal goods and incomes are directly related.

The demand for a inferior goods income rises and good falls . the demand for an inferior goods and income are inversely affected.

SOME IMPORTANT ASSPECTS WHICH AFFECT INCOME ELASTICITY OF DEMAND AS FOLLOWS:-

PREFRENCES:- People's preferences affect the amount of good they are willing to buy at a particular price. A change in favour of goods shift the demand curve rightward. But in the gold commodity the income is doesen't affected because the always show when the consumer's income is rises thend the demand is also increases and visa versa because it is a investments which wa BENEFITTED FOR FUTURE.

NUMBERS OF BUYERS:- The demand for a goods in a particular market is related to the number of buyers in the area . The more buyers, the higher demand , while the fewer buyers , the lower the demand .

EXPECTATION OF FUTURE PRICE:- Buyers who expect the price of the goods to be higher next month may buy the good now thus increasing the current demand for that particular goods. Buyers who expect the price of the good to be lower next month may wait until next month.

POPULATION :- Large no. Of buyers are in Indian market the customer's and population are so high in Indian market .

Examples:- india have created so much demanded for goods and services because of its massive population.

ADVERTISING:- An increase in a firm's effective advertising will be cause in demand for the product being advertise. For examples :- Indian have been buying gold for the last few years . however, there is no another addition cost are included in that luxurious good.

## CROSS ELASTICITY OF DEMAND

It means when the price of the substitute commodity is increase then the other product is dicreases and visa versa . there is two commodities in iindia is silwer and gold .

When the price of the silver is dicreases then the silver commodity is increases and gold price is dicreases then the demand of that commodity is increases. Now the bullion banker is net short gold when he conduct this operations . remember he borrowed gold and now he has a financial assets . he is making 5 % return on the spread , but he now has a gold price risk . as a banker he is not normally business of putting on speculative positions . so basically, in doing this operation but bullion bankers has a hedged the gold price and he takes a small margin- like a half of %- from this intermediation . in doing so , he allows private market participants to go short gold . that’s why we elide the two phrases- going short in the gold market and gold borrowing . the ultimate borrowers in the gold leading operation are these shorts in the gold future and forward markets .

Now we have a conservative set of gold leading number and we have a more aggressive set of such numbers . our range of estimates emplies that somewhere between 10000 and 16000 tonnes of the official sector gold position has left thse results way of leading the process .

## TABLE 1 : WHY OFFICIAL SUPPLY/DEMAND EXCEEDS MAJORITY OPINION ESTIMATES AN ARGUMENT FROM THE SUPPLY SIDE

Total Gold Loans Outstanding

BOE

GFMS

December 1993

4, 750

1, 600

June 1995

9, 250

2, 200

Note: All Quantities in Tonnes

This discrepancy was so large that tried to be conservative and for no good reason, chopped the 9000 tonnes down to 6000 tonnes because that 6000 tonnes figures was already so far removed from the official numbers . in any case , this bank survey implied big , big errors in the consensus supply/demand balances and half of a lot more gold lending than anyone thought .

Now look , gold lending began in earnest in the early 1980. By 1995 it was a process that had been going on for more than ten years . now, what if there were 6000 tonnes of gold loans – not 2000 tonnes of gold loans as implied by the consensus supply/demand statistics . that mean that there had been 4000 tonnes more lending , most of it over the last ten year period . gold lending was a small activity during the 1980 . it was a much bigger activity during the 1990, so obviously it was a business that was occurring on an increasing scale . if the discrepancy was 4000 tonnes over 10 to 15 years , 300 to 400 tonnes a year – well , then it was probably 200 tonnes a year in the 1980 and it was probably nearer 600 tonnes a year by 1995. That mean supply and demand were underestimated by something like 600 tonnes a year .

## If we total these three demand items we arrive at the following:-

Table 2

Metric Tonnes

1999

WGC gold demand for jewelry, bar and coin in 27 countries

3, 282

GFMS gold jewelry demand in an additional 7 countries 1)

268

GFMS global demand in all other uses (excluding jewelry, bar and coin)

458

Incomplete Global Demand Subtotal

4, 008

GFMS Global gold demand

3, 9852)

GFMS occasionally report and use demand . there survey for 1998 including the estimate used here . there was no comparable estimate in their 1999 report . the WGC reported a large increase in global gold demand in 1999. Base on wgc glbal demand for trend this number is probably conservation .

GFMS total gold demand exceeds this total by 170 tonnes . they attributes demand to investigate in india .

From the above it is clear that the WGC survey plus select additional item from the GFMS points to a total that exceeds GFMS estimation of global gold demand . this subtotal still excludes jwelery demand in more than 100 countries. It also excludes official coin and bar demand in these 100 or more countries as well as seven additional countries mentioned above.

It is basically helps to understand the total demand and supply of gold in india and they are basically helpfull for searc what r the condition can not decrease the demand and supply of gold in the market. It always search and analyse the terms and conditions which help to easily find out survey of gold in india or many countries.

## ANALYSIS OF DEMAND AND SUPPLY OF GOLD IN INDIA

The ever increase of demand and supply of gold in india , various hypothesis have been put forward from time to time:-

Demand for gold has an autonomous character. Supply follows demand.

Demand exhidits income elasticity , particlurly in the rural and semi- urban areas.

Price differential cretes import demand , particlurly illegal import prior to the commencement of liberalisation in 1990.

A part of the demand is caused by the need to stash away uncounted wealth and income.

Gold trades figures since the onset of liberalisation in 1990 shows that while the price differential narrowed from a high of around 53. 1 % in 1991 to about 5-10 % currently the import volumes rise unabated.

Gold demand in india increased by an annual compound rate of around 15 % from 1990 to 1998 during the period of liberalisation with growth slowing thereafter. This was high , not only visa- versa the world demand growth rate of 3. 05 % but also in relation to the trend Indian .

GDP growth rate is 5. 5 % and

Growth rate demand for oil is 3. 8 %

Energy and sugar is 6 and 5 %

Gold imported officially for domestic use is now channelled almost exclusive via the official agents or the authorisd commercial banks.

# Some aspects which helps to anlyze the gold demand and supply in india.:-

FUTURE TRENDS :- What is likely demand trnd for the future? Given the fact that gold demand is income-elastic, it would be safe to assume that demand will increase over the next decades. Since gifting jwelery at the time of marriage constitute the major components of demand, ball-park estimated could be on the basis of the no. Of marriage that takes place actually. On the basis of assumption around 8 million marriage r held in india per year. Gold is required for marriage by families of different income groups.

GOLD MARKET IN INDIA:- The gold market in india is predominantly a market for buying and selling physical gold. In the whole sale segment, nominated agencies are the bulk importers. This market is resonabily efficient from the point of view of distribution of bars and scraps over the length of the country which takes place in a very efficient manner. Price manner is also generally observe in areas with identifical of duties and taxes. Gold leasing volume are small in comparision of physical buying and selling. Most of leasing activities taken by nominated banks on a back to back basis via supply from overseas. The market needs to develop for at leat two reasons:-

To provide working capital at low cost together with gold price leading, not only to the exporter but also to jwelery manufacture for the domestic market.

The existence of gold leading market is pre-condition for arbitrage free pricing of gold forward in the local market.

ISSUE FOR THE FUTURE :- It would only be logical to assume that the neeed for a review of the overall policy stance with regards to gold is now being increasingly felt in official circles. As with other areas of liberalisation , the direction of change will certainly be positive, although it would be difficult to imagine any specific time frame. However the following issue are like to be the focus of policy.:-

Strengthening of the infrastructures and market in physical gold. More assaying, refining and recycling capacities of international standard and accreditation are expected.

Better protection for consumers, by way of the spread of hallmarking of jawelery. The emphesis will continue to be on more self regulation by jewellery manufacturing and retailers.

Further liberalisation the gold import is live issue. Removal of all the remaining restriction on gold imports has been advocated by many of following groups:-

Trade liberalisation for gold is a pre requisite for financial liberalisation.

There is no specific advantage in restricting gold imports to the select no. Of nominated agencies.

If gold is imported farely under full fiscal benefits will accure to more deregulation of gold in india.

Going by Turkish example, free imports under OGL and free export are pre condition for establishing a foothold in the world jawelery market .

REGULATION IN PHYSICAL AND FINANCIAL MARKETS IN GOLD IS ANOTHER MAJOR ISSUE:- Regulation in general means formulation of norms by the regulatory for :

a. Risk assessment and control the regulated institution.

B. Investors protections.

5. BRINGING THE GOLD HELD BY THE PRIVATE SECTOR IN TO THE ECONOMIC MAINSTREAM HAS RIGHTLY BEEN AN OBJECTIVE THROUGHOUT:- Mobilization of gold by the gout. In the past did not yield any major long term benefit. Any government led mobolization has inherent disadvantages. A better alternative would be allow holders of gold to raise capital from the banking system by way of pledge. It would be inconsistent with the spirit of liberalization to discriminate against those who saved in gold in past. A machenism can be evolved where by banks leading in deregulation of gold in india.

6. IT DEVELOPED OF E- MAONEY :- It is possible that a private sector units of account that is linked to gold may come in to existence in india, given the fact of huge private sector gold stocks. It would be advantages to look in to this possible.

7. GOLD HAVE ANY OFFICIAL MONETERY ROLE LEFT IN INDIA:- Gold’s role in currency issue was braught to a level of insignificance in india. There is good evidence to support the view that gold is held as an inflation hadged in india.

# BRIEF DISCRIPTION ABOUT ANALYSIS OF DEMAND AND SUPPLY OF GOLD IN INDIA

Demand for gold is likely to contain information regarding inflation expectations. Since monitory policy is reflected in the growth of money stock and ultimately the rate of inflation, there is a case for including gold in the monetory calculus. It need to analyse the advantages in including gold held by the private sector in the broad measure for liquidity, even though gold is not anybody's liabilities. Also gold could be included in the index for the real effective exchange rate for rupees. They also indicate that :-

Other thing be equal.

Gold import demand has real effective exchange rate of the rupees.

This is the analyse function where we analyse how to demand and supply of gold commodity can run in the market and whoch factors affect to ush the demand and supply of gold in equal range. This is the chart which are showing consumption n different year and we aware that the consumption of gold in india and where they affect.

supply and demand table

# CONCLUSION

In that demand and supply of gold in india we analyse and learn that official sellin will " fill the boots" ot trend following speculation in the gold market and the gold price will fall back towards its prior trading range. The global recession and strong dollar which curb gold , jewellery and bar demand have been facilitating the ability of the official sector to keep the gold price low.

The forces for higher gold price will build. Though it may not happen over the short run in the long run the dollar will fall- and substantially in our view. A dollar decline will lower than the price of gold in countries outside, which will in turn stimulate price elastic demand. The fear of weakness may also shift official sector attitudes towards holding gold as a reserve asset relative to the currency. Many central bank feels uncomfortable with the now higher share of currency in their official reserves. The huge and ever increasing internal debt of india growing prospects of inflations. The central bank has started objective of reducing its high reserve holding of money, and it may be noteworthy that they have reported the first rise in central bank gold holding in many years. As long as currency has holding remained strong, central bank have felt no pressing need to address their high mony holding, but an eventual reserval in the money exchange rate may change the perception.

The supply will also lift the gold price. Over the last 4 year , the supply despite low prices because there was a pipeline project from the 1994-96 period of higher gold price the pipline has now been almost depleted. In addition high grade to improve cash flow at low gold price. High grading increase output over the near term but ultimately reduces overall life of mine output and brings forward in time depletion dynamics.

At last it shows that the price of the gold is increase or dicreases then it doesen't affect on the demand and supply of commodity because it is the investment which provide always benefit to the customers, due to previous record which was explain in previous topic and cover that price can't affect on demand and supply of gold in india or any country.