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Gold is losing its shine

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Gold price has been falling over the last week.

Gold has been a safe haven for investors. People, who feel that their savings are not safe due to fears of expected inflation or political unrest or any kind of future uncertainties, turn to gold.

Gold has been an investment for all seasons.

During economic expansion, it is a hedge against inflation. When the world is hit by recession and the share prices are going down, we turn to gold.

Over the last decade the price of gold was on the rise. It reached the highest at US$1900 in August 2012.

The steady decline began on Friday, April 12, with price below the US$1500 an ounce mark.

It was the lowest since early 2011.

On Saturday April 13, gold price fell by US$87 to US$1,477 a troy ounce. The fall continued and on Monday April 15, the fall was the steepest one- day decline in 30 years. It was a 9% fall and by US$140. The price tumbled to US$ 1,361 per ounce. Following the Boston bomb blast, which shook the world, price of gold went up on Tuesday to US$ 1,376. On Wednesday, the price $1,373 an ounce in afternoon trading and on Thursday, April 18, it was hovering around US$1376.

It is predicted that gold price will fall further to US1,200 an ounce in the next five years.

Is it simply a correction?

Why is the fall?

The world is still reeling under the effects of recession, which began in 2008. The latest IMF *World Economic Outlook 2013* released on April 17 has cut the forecast rate for 2013 from 3.5 percent to 3.3 percent, which is not different from 2012 actual growth rate of 3.2 percent. The pace of world recovery is thus flat.

The latest report on the US job numbers was disappointing. The Japanese recovery is wobbling through unprecedented quantitative easing. The yen fell heavily, as Bank of Japan is now pursuing expansionary monetary policy aimed at depreciating the currency with the hope for an export-led recovery. The Korean economy is shaken up with prospects of its own electronic exports decreasing in the light of the Japanese yen depreciation, aside from the fallout of the tension over the North Korean threat. The euro crisis which seemed to have subsided with a bail out for Cyprus began to simmer again with a new crisis brewing in another member country: Slovenia. Furthermore, there was bad news that the Chinese economy is faltering.

With depressing news all around, why is gold not considered attractive anymore? Is there any other, better safe haven? Or as rumours float around, is it the result of a conspiracy that China wants to buy more gold?

It is argued that that it is not impossible for the banks to act as a consortium to get the gold price down so favoured countries can buy at lower price levels.

Holders of Gold

There are ten largest holders of gold reserves. The governments and central banks know very well that in the world of paper money, which we hold in trust, gold is the ultimate store of value.

As of August 2011, it is reported that the largest holder of gold reserves in terms of tonnes (shown in the brackets) is US (8,133); followed by Germany (3,413); IMF (3,217); Italy (2,452); France (2,450); Standard & Poors Deposit Receipts (1,121); China (1,054); Switzerland (1,040); Japan(765) and Netherlands (613 tonnes).

It is estimated that about 0.30 tonnes of gold are held by Fiji. The December 2012 balance sheet of Reserve Bank of Fiji shows that its gold holding is about F$ 2.5 million, which is less than 1 percent of total foreign assets F$1,795 million. The latter include long term and short term deposits in foreign currencies and various investments as well as IMF Special Drawing Rights of the country.

Returning to possible reasons for fall in gold price, economists are working overtime to find out the reasons:

- Worldwide, inflationary fears are receding, despite massive quantitative easing (QE) in the US and Japan. The whole sale price index in the US was falling in March. So, people want to reduce their gold holdings
- Expectations that the QE by the US Federal reserve would end sooner than planned , as indicated in the minutes from the last month’s U.S. Fed's policy meeting; and therefore interest rates would rise
- Expectations that rising interest rates would strengthen the US dollar, which set off panic selling of gold and a shift to equities
- Likely rise in supply of gold as Cyprus was expected to sell its gold reserves to raise around 400 million euros to help finance a bailout.
- The other crisis ridden eurozone countries like Italy, Spain and Portugal might also sell their gold.

Gold is a commodity freely traded in the world market just as oil or food grains.

The fascination with gold is, however, on a different plane. It is beyond the cold logic of rationality. It is more subtle than the laws of economics.