



HAVE INDIAN GOLD IMPORT HIT ROCK BOTTOM?

In July 2016 Indian gold imports were at 20.8 tonnes, the lowest level since September 2013 and 78% lower than July 2015. Has the cycle of Indian gold imports hit the trough? Possibly yes. Here we throw light on import trends in last seven months and factors that can turn around the market.

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Indian gross gold imports in the first seven months of this year were 215.9 tonnes, down 57% from the same period last year. Out of this, the duty free import which is meant for exports declined by only 26% while duty paid gold imports declined by 66%. Drilling down further in the duty paid category showed that fine gold refined from doré dropped to just 47 tonnes as against 103 tonnes last year, a 54% decline. And in the same period the duty paid bullion imports showed a decline of 70% to 83 tonnes for same period.

Imports (tonnes)	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Jul-15	Jul-16
Bullion (for domestic market)	133.1	79.9	146.2	141.9	49.8	29.9	65.1	3.1
Doré (fine purity)	38.8	47.8	60.8	59.9	32.7	14.1	16.9	0.4
Bullion (duty free for export market)	44.3	56.3	50.7	44.9	34.7	34	14.5	17.3
Total Official	216.2	184	257.7	246.7	117.2	77.9	96.5	20.8

Source: GFMS, Thomson Reuters

Touching on imports for domestic consumption in July, both bullion and fine gold from doré were at the lowest since March; volumes lower than five tonnes a month were last seen in June 1993. On the other hand, import of gold for exports surged from a first half average of 11.4 tonnes to 17.3 tonnes in July; this was largely for re-export as medallions and jewellery, only to be re-melted in the importing country to re-enter the supply chain. The increase in volumes towards July is attributed to the process changes regarding bonded warehouses for precious metals, brought in force by the Indian Customs on 15th June. It took more than three weeks for the trade to comply with new regulations, and the bill of entry was filed only in July for consignments imported in June. The second reason for the increase was the rise in the gold metal loan renewals by jewellery exporters.

Units in tonnes	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Banks							
Duty paid	30.7	7.09	1.19	13.36	6.93	6.59	2.64
Duty free	1.35	1.4	0.1	1.88	2.88	0.91	5.88
Nominated agencies							
Duty paid	9.35	0.83	0.2	1.94	0.46	0.25	0.5
Duty free	13.03	6.73	10.2	8.15	7.33	11.18	10.85
Fine gold from doré	20.34	10.17	2.2	3.32	6.51	3.73	0.41
Direct import by exporters	0.52	1.19	0.65	1.15	0.71	0.61	0.57
Total	75.3	27.4	14.54	29.8	24.8	23.17	20.84



Since February, the official gold trade in India has been going through a rough patch caused by some of the old policies towards gold and higher customs duty. One such policy was prohibiting gold export in the form of bullion that is under HS code 71081 series; however it can be exported after fabrication in any form under HS codes 7113 to 7118, in essence suggesting the need for value addition of more than 1.5%. Thus, only gold bars refined as a secondary metal from other metal concentrates were eligible to be exported from India. As a result about two tonnes of gold bars refined from metal concentrates were exported this year to the end of June as it was more profitable to export refined gold to UAE than sell in the domestic market due to discounts ranging from 2% to 5% from February until recently. One of the main reasons for making it a one-way trade has been the fear of round tripping; nevertheless the rationale for making a two way trade has become a pertinent debate now, given the inverted market structure. And as this happens in a well regulated framework, the pricing in market will return to normal, for instance in Turkey and UAE spot prices have been at discount of an average \$2 per ounce in the last three months while in India it was over \$50.

The chart below shows jewellery and medallion exports from India. It has sustained despite slack in demand at key export markets like UAE and other middle-east countries. On the other hand, it is an indication that the same amount of surplus from the market has been exported out of India in the form of medallions and jewellery.

Can the imports revive by September?

The India International Jewellery Show was held from 4th to 8th August; this trade show is considered as a trend setter for demand for the rest of the year. It had a lukewarm response compared to last year with overall advance orders to fabricators down by an average of 45%. However, currently the industry is at a point where official supplies can quickly shrink on any pent up demand should there be a steep fall in price. Retailers are very cautious; it was inferred with orders being on the higher side for studded jewellery as against plain gold jewellery due to the lead time for the latter. Orders for plain jewellery are likely to improve by early September as the festive season approaches. Response ahead of Onam festival in Kerala on 13th to 15th September will be a barometer on how demand is likely to turn out for the rest of the year, given the high per capita consumption of gold from this single state.

Mandatory hallmarking possibly by the end of the fourth quarter will be another major driver of volumes. From various discussions with contacts we understand that retailers in tier 1 and tier 2 cities are reworking on their stock and are pushing stocks which are undercarated towards the tier 3 and tier 4 cities. This is because the implementation of compulsory hallmarking will be first rolled out in 22 cities and then moved to other cities. This will evidently create replenishment and can create an additional demand for gold.

Currently the market is facing tight liquidity due to the income disclosure scheme and drive against corruption. Unaccounted and undisclosed income has been one of the key sources driving sales in jewellery and investment bars, as gold has been a safe haven to hide cash. It will be a wait and watch to see how the industry reacts in a market where purchases in cash may become difficult.

Reference articles in Eikon:

Implications of India's excise duty on the jewellery market: 13th June 2016

Hallmarking in India, can it be a success: 3rd May 2016

India Budget 2016: Pains and gains for the gold industry: 1st March 2016



Sources:

* Domestic premia /discount: NCDEX polled spot premia and GFMS, Thomson Reuters

