Gold rush

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Tightening monetary policies in the West and supply factors led to the spurt in gold prices

- Gold is shining once again. The price of gold in the Indian market reached its highest-ever level, hitting the Rs.33,800 mark in Mumbai in the midst of increasing demand from buyers and lagging supply in the global market.
- And it is not just the rupee that is witnessing a fall in value against gold.
- A similar trend has been seen in the price of other major emerging market currencies as well when their worth is measured against the yellow metal.
- In fact, many emerging market currencies have already hit, or are quite close to hitting, historic lows against gold.
- The increase in the price of gold worldwide should be seen against the backdrop of rising uncertainties that threaten to derail the global economy.
- The rupee, for instance, has depreciated significantly in value against the U.S. dollar in the last year alone.
- This probably explains the divergence in the performance of the dollar vis-à-vis other emerging market currencies against gold.
- Apart from these short-term influences, there are probably other long-term secular factors at play as the price of gold looks to shoot up towards new highs.
- The fall in price after 2012 led to a fall in capital spending by gold miners, which has meant that supply has failed to keep up with growing demand.
- This is typical of all commodities that see years of oversupply that lead to a price slump followed by years of under-supply that leads to a jump in prices.
- The depreciation in the value of national currencies against gold is also an indication of the increase in inflationary pressures across the globe.
- What could put a premature end to gold's rally is the easing of policy by

global central banks.
- While this will restore investor confidence in the global economy, it carries with it risks linked to debt-fuelled growth.

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