



## Rising Gold Price

### What is the issue?

\n\n

\n

- The price of gold in the Indian market reached its highest-ever level, hitting the Rs.33,800 mark in Mumbai.
- The current increase in gold prices reflects the larger monetary policy and currency scenarios across the globe.

\n

\n\n

### What are the recent developments?

\n\n

\n

- The gold price rise is driven by increasing demand from buyers and lagging supply in the global market.
- Also, not just rupee, but many other major emerging market currencies are witnessing a fall in value against gold.
- In fact, many emerging market currencies have already hit, or are quite close to hitting, historic lows against gold.
- Against the U.S. dollar, however, gold is still priced well below its all-time high of over \$1,500 that was reached in 2012.
- This is despite gold showing some appreciation against dollar in the last few months.
- The increase in gold price worldwide should be seen against the backdrop of rising uncertainties that threaten to derail the global economy.

\n

\n\n

## How is the global economy at present?

\n\n

- \n
  - Western central banks have been tightening their monetary policy stances for a while now.
  - \n
  - This is leading to increasing fears that this could put an end to the decade-long economic recovery since the 2008 Global Financial Crisis.
  - \n
  - The U.S. Federal Reserve has been at the forefront in the current tightening cycle, with recent [increases in interest rate](#).
  - \n
  - With better returns, this is leading to flow of capital from emerging markets to the West, putting further pressure on various emerging market currencies.
  - \n
  - The rupee, for instance, has depreciated significantly in value against the U.S. dollar in the last year alone.
  - \n
  - This probably explains the divergence in the performance of the dollar vis-à-vis other emerging market currencies against gold.
  - \n
  - The U.S.-China trade war and the lowered rate of Chinese economic growth have added to fears of a global economic slowdown.
  - \n
  - Furthermore, with increased volatility in stock markets, investors seeking financial safety have turned to gold and boosted its price.
  - \n
  - Besides, many central banks have been trying to hoard gold to restore confidence in their currencies.
  - \n
  - Driving factors - Apart from short-term influences, there are other long-term factors at play as the price of gold is moving towards new highs.
  - \n

\n\n

- \n
  - The fall in gold price after 2012 led to a fall in capital spending by gold miners.
  - \n
  - This has meant that supply has failed to keep up with growing demand.
  - \n

- The depreciation in the value of national currencies against gold is also an indication of the increase in inflationary pressures across the globe.

\n\n

### What lies ahead?

\n\n

- The easing of policy by global central banks can possibly put an end to the current increase in gold price.
- This can go a long way in restoring investor confidence in the global economy.
- Nevertheless, the challenge of the risks linked to debt-fuelled growth exists.

\n\n

\n\n

**Source: The Hindu**

\n



**IAS PARLIAMENT**  
*Information is Empowering*  
A Shankar IAS Academy Initiative