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Investors flock to gold

By Deborah Hyde | 09:07:51 | 20 May 2009

Fears of future inflation and ongoing financial uncertainty saw investors continue to flock to gold in the first quarter of 2009, with volumes up 38% in the first three months of the year.

Total demand for gold in the first quarter rose to 1,016 tonnes, representing a 36% rise in value terms to $29.7 billion, with demand from Exchange Traded Funds and demand for gold and coins driving the rising demand, suggesting that buyers were buying for investment purposes.

In 2008, the demand for gold as an investment stormed 64% higher than 2007 levels.

The investment into ETFs continued with demand soaring 540% to 465 tonnes at a value of $13.6 billion, according to research conducted for the World Gold Council.

In Germany, where the impact has been felt more than most, there was a massive 400% rise in demand for bars and coins compared to the same period last year to 59 tonnes.

Net retail investment (total bar and coin demand) remained highly robust, rising 33% year on year to 131 tonnes, despite some selling pressure on bar and coins in eastern markets as investors took profits.

Demand for jewellery and industrial processes reflected the weakening of the economic environment.

Gold jewellery demand was down 24% on year earlier levels, with most countries suffering a decline as consumers were deterred by rising prices.

Total demand in India, traditionally the world’s largest gold market, declined significantly under pressure from record rupee prices and a major deterioration in the domestic economy. Demand fell 83% on year earlier levels to just 17.7 tonnes.

Industrial demand for gold in the quarter was down 31% largely due to a lack of buyers in the electronics sector reflecting falling consumer spending.

'The shift in the balance of demand that we have witnessed this quarter, where the gold price has risen despite a severe drop in jewellery and industrial demand, perfectly demonstrates the robust nature of gold’s fundamental supply and demand dynamics,' said Aram Shishmanian, chief executive of the World Gold Council.