Market Basics

- **GLOSSARY**
    - **Assay:** To test a metal for purity.
    - **Bid/Ask:** “Bid” or “buy” is the price a dealer is prepared to pay for gold/silver bullion. “Ask” or “sell” is the price offered by the seller.
    - **Bullion:** Refined gold/silver that is at least 99.5% pure, usually in the form of bars, wafers or ingots.
    - **Bullion Coin:** A legal tender coin whose market price depends on its gold/silver content, rather than its rarity or face value.
    - **Face Value:** The nominal value given to a legal tender coin or currency.
    - **Fine, Fineness, Fine Gold/Silver:** The quantity of pure gold/silver contained in 1,000 parts of an alloy. A normal “good delivery bar” of 0.995 fineness contains 995 parts of gold/silver and 5 parts of another metal. Gold/Silver is produced in bars up to a purity of 999.9 (often referred to as “four nines”).
    - **Futures Contract:** A firm commitment to make or accept delivery of a specified quantity and quality of a commodity on a specific date in the future.
    - **Gold Standard:** A monetary system based on convertibility into gold; paper money backed and interchangeable with gold.
    - **Hallmark:** Mark, or marks, which indicate the producer of a gold/silver bar and its number, fineness, etc.
    - **Karat:** Unit of fineness, scaled from one to 24. 24 karat gold (or pure gold) has at least 995 parts pure gold per thousand; 18-karat has 750, parts pure gold and 250 parts alloy, etc. Similarly for silver.
    - **Kilo Bar:** A bar weighing one kilogram – approximately 32.1507 troy ounces.
    - **Liquidity:** The quality possessed by a financial instrument of being readily convertible into cash without significant loss of value.
    - **London Fix:** The twice-daily bidding session in London of the five major gold traders, at which the gold price is fixed or set. The London Fix provides the basis for many gold contracts worldwide. For Silver, the price is fixed or set once daily.

- **Numismatic:** Coins that are valued for their rarity, condition and beauty beyond the intrinsic value of their gold/silver content. Generally, premiums for numismatic coins are higher than for bullion coins.

- **Option:** The right, (not the obligation), to buy or sell a commodity or a financial security on a specified date in the future.

- **Premium:** The amount by which the market value of a gold/silver coin exceeds the actual spot value of its gold/silver content. Part of the premium is recovered by the seller at resale.

- **Spot Price:** Sometimes referred to as the cash price. The current price in the physical market for immediate delivery of gold/silver.

- **Spread:** The difference between Bid (the price a buyer is prepared to pay for gold/silver) and Ask (the price a seller offers) prices.

- **Troy Ounce:** A unit of weight, equal to about 1.1 avoirdupois (ordinary) ounces. The word ounce when applied to gold/silver, refers to a troy ounce.

Where do the gold and silver come from?

Gold and silver are found on all continents. It is obtained by digging it out from the ground from a mine or sometimes by a process called panning. Panning is a process usually done for getting gold from rivers and streams.

The gold bullion and coins that you see today may be made of newly-mined gold, but they may just as easily contain gold from the past. Much of the gold that we use has a long history. Today's gold supply, in addition to the 2,400 tons newly mined every year, includes old lost treasures, plunder from ancient tombs, melted coins from antiquity, dowries, tributes, ransoms, and all the gold found, mined, and stolen over the centuries.

Gold was the original recyclable substance. Because it is soft and easy to work with, whatever one makes out of gold, whether jewelry or artwork, gold is always easily repaired, or worked into a new shape entirely. And because of its scarcity, old gold is never thrown away, but instead is always recycled. Today, all the gold in the world would form a cube approximately 50 feet on each side, that would fit easily underneath the Eiffel Tower.

At the present time, approximately 18,000 metric tons of silver is being mined annually. Silver is being mined in sixty countries around the world. Ten of those sixty nations account for a full 85 percent of the total amount of silver mined annually. Mexico leads the pack when it comes to silver mining, followed by Peru, Australia and then the United States.

The easy and understandable assumption is that all silver comes from silver ore. (Gold comes from gold ore, copper comes from copper ore and so forth.) However, when it comes to silver, it does not all come from silver ore. Indeed, only 25 percent of the silver that is mined in the world actually comes from silver ore. 15 percent of the silver mined around the globe today comes from gold ore, the remaining silver coming from a combination of copper, lead and zinc ore.

- **What is the size of the Indian Bullion Market?**

  India is the leading consumer and importer of bullion. It consumes nearly 800 MT of gold, which accounts for 20 per cent of world gold consumption. Out of this, around 600 MT of gold goes into making jewellery.

  The domestic bullion and jewellery market is estimated to be around US$ 16.1 billion, which is expected to grow to the size of US$25 billion within 2-3 years.

  India's gem & jewellery sector commands around 80% of the jewellery trade worldwide. Total Export of jewellery in April 2009 was at Rs.5749.56 Crore.

  The Indian gems and jewellery industry is one of the fastest growing segments in the Indian economy. The annual growth rate is approximately 15 per cent.

  Gems and jewellery worth US$ 17.79 billion was exported during April 2008 to February 2009. The United Arab Emirates (UAE) was the largest importer of gems and jewellery from India in 2008-09, with a share of 31 per cent. This was followed by Hong Kong with 25 per cent and the US with 20 per cent. The gem and jewellery sector accounted for 13 per cent of India's total merchandise exports.

- **How many people in India are employed in the bullion industry?**

  Bullion trade and ornament industry provides employment to more than 0.7 million skilled and semi- skilled labor (karigars) in unorganized sector. It is one of the largest employment opportunity generating industry without involving any Government's expenditure.

  There are around 0.8 million small and big retail shops spread across the country, which are engaged in sale of ornaments. This provides further employment opportunity to around 2 million people.

  Besides, the import and export sector, bullion banks, nominated agencies and other support agencies provides employment opportunity to around 0.1 million people.

- **Who gives the purity assurance?**

  Gold and Silver large bars are purchased from nominated agencies in India. These bars are imported from international banks who are full members of the London Bullion Market Association (LBMA). These bars are refined by those who comply with all the London Good Delivery Rules. Hence, purity and quality is world class. The bars are brought into India through reputed professional security institutions. World over and in India, all ETFs, futures exchanges and banks deliver and store through these institutions.

- **What is the difference between 995, 999, 22 carat, 24 carat etc.?**
  Unit of fineness, scaled from one to 24. 24 karat gold (or pure gold) has at least 999 parts pure gold per thousand; 18-karat has 750, parts pure gold and 250 parts alloy, etc. Similarly for silver.

- **Who is LBMA?**
  The London Bullion Market Association (LBMA) is the London-based trade association that represents the wholesale over-the-counter market for gold and silver in London. The ongoing work of the Association encompasses many areas, among them refining standards, good trading practices and standard documentation

- **How are the prices of gold and silver determined in Indian and international markets?**
  Though India is the leading player in import and trade in bullion and export of jewellery, it does not exert any significant impact in discovery of gold prices in the international market. The reason is that country's bullion trade is fragmented and unorganized.

  During recent times, Bullion market has witnessed high degree of volatility in prices, mostly due to fluctuation in international market and factors influencing dollar valuation. This has severely affected the bullion and jewellery trade in India, as demand for ornaments as well as bullion usually comes down if the prices are volatile.

  Export of Indian gold bar is not allowed. This creates a disparity in Indian gold price and international prices, if the international price goes above a certain level. It creates a distortion in physical trade, which in turn severely affects import of gold in India.

  Most of other commodities and merchandise are under OGL, where both import and export of commodity is allowed without any hassle. But, in case of gold and silver, there are a number of restrictions on import as well as export of gold.

  Price of gold and silver differ from place to place in India even at the same moment. There is no benchmark price available, which is valid for the entire country.

  There is no national level trade and industry body, which can represent the bullion trade and industry.

India has huge household stock of gold and silver. In past, there have been multiple attempts by the Government to bring out such assets into mainstream, but none of the schemes could achieve the desired results. There is need to create a market linkage for such household bullion stock, which can be refined / certified by approved refineries so as to ensure purity and weight. This would induce the people to bring out such gold into open whenever International gold prices rise beyond a level in order to take advantage of rising prices.

Gold/Silver prices in India are primarily dependent upon 3 major factors:

- **The international (London fix) price of gold and silver in US dollars**
  The twice-daily bidding session in London of the five major gold traders, at which the gold price is fixed or set. The London Fix provides the basis for many gold contracts worldwide. For Silver, the price is fixed or set once daily.

- **The value of the Indian rupee versus the US dollar**
  Gold and Silver prices should be uniform across the world. So base price in United States is considered and depending upon currency value of respective country, prices of Gold and silver are decided. Basic gold prices are in terms of troy-ounce and get converted into grams. Then after using Dollar-rupee conversion factor and adding import duty gold prices are decided.

- **Local and overall Asian demand for gold and silver.**
  Further, the local market rates would be different because the local wholesale bullion market works on a complex system of wholesalers, stockists, bulk consumers, re-sellers, and retailers.

  For example, if you order bulk silver coins from a wholesaler in Chandni Chowk, New Delhi, the coins would be made by a coin-making specialist using that dealer's dies. The same coin-maker would be making coins for many other dealers as well. Depending upon the individual dealer's cost price and the coin maker's schedule, the prices would vary somewhat dealer to dealer.

  In times of great demand such as Diwali, dhan-teras, weddings, you may have to wait a few days before your order is completed. In that case you would pay a booking amount to fix the rate at which you would eventually buy--regardless of the rate on the delivery date.

- **Why is the gold price in spot market different from prices of Gold ETF?**

Gold ETF prices do not truly reflect the price of physical gold because of cash components and Annual Maintenance Charges. Also, each unit of Gold ETF may not be backed by 100% physical gold but only between 90-100%. Therefore, it is not possible to compare these prices with the spot market prices.