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## **A Pragmatic View of 'Physical Gold' versus 'Paper Gold' Scenario in India with Special Reference to Gold ETFs.**

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## Abstract

The investment in gold is popularly known as 'Safe Heaven' amongst all investment alternatives in India for whom the risk matters. Holding a gold is yet considered as a symbol of wealth and prosperity to the Indians. Moreover, the Indians have special interest and zest in Gold than any other nations in the world. Since last 6 months the gold price is increasing too fast. Average last year's return in gold around 46% but due to lock down in Covid-19, the demand towards paper gold like Gold ETFs, Gold Derivatives, Sovereign Gold Bonds, Gold Deposit schemes etc. rise around 20% to 25%. Other things of attraction towards Paper Gold are no making charges, no deduction in weight when returned, no fear of theft, easy entry and exit etc. Apart from this, it is to be seen that since last decades the advertisement regarding mutual funds and ETFs have also been surprisingly increased. The term ETF (Exchange Traded Fund) is the now buzz word for the investors who likes to invest their money in the de-materialised form than physical form. In India, the history of Gold ETF was started from the year 2002 by the Benchmark Asset Management Company Pvt Ltd however this proposal got approved by SEBI (Securities Exchange Board of India) on 24th January, 2006. This study is conducted to view pragmatic point on Paper Gold versus Physical Gold. The primary objective of this paper is to find out the facts and figures about the tendency of investors with respect to Paper Gold especially for Gold ETFs in India. This paper also focuses on the topics of mechanism of Gold ETF, attractive and disliking features of Gold ETF and physical Gold, and Comparative study of Gold ETF v/s Physical Gold.

## Keywords

Paper Gold, Exchange Traded Funds, Gold ETF, Physical Gold, Assets Under Management (AUM)

## Introduction

From December 2019, many countries are facing life-threatening situation due to a new corona virus. The virus is spreading so strongly in terms of speed that infected countries have to go for lockdown. In India, the virus spreads its legs from February 2020, and Indian Prime Minister – Shri Narendra Modiji announced lockdown from 22<sup>nd</sup> March 2020. The effect of

lockdown the economy results into no demand and supply of most of the goods and services except essential one. It also affects the pattern of investment in gold, as physical gold is not available during the lockdown. This situation gives rise to choose other investment alternatives of gold such as Gold ETF, Gold Sovereign Bond, Gold derivatives, E-Gold in wallet, Gold Deposit schemes etc. As this research paper specially focuses on Gold ETF i.e. Exchange Traded Fund, the terminology of ETF is necessary to understand first, especially for the investors who like to invest in safe heaven. Now-a-days, ETF is widely used term in financial market however it is yet popular amongst all demat holders who are usually investing their money into stock exchanges. Many of them only follow the conventional alternative of mutual funds. One of the reasons behind ignorance of ETF market is the lack of proper understanding. For that, it is necessary to explain them that Gold ETF is nothing but the dematerialised form of physical gold. Investing into a Gold ETFs simply means buying a gold in an electronic form. Second and probably the more important reason is that each type of ETF is depending upon the nature of that ETF. Suppose Index ETFs track a certain index (e.g. S&P BSE SENSEX or the BANKEX), Equity ETFs are being contingent on market price of Equity shares on stock exchanges. In the same way, the Gold ETF has been introduced with an intention to track the physical Gold.

◆ **ETFs – Exchange Traded Funds:**

Exchange Traded Funds are just like the dematerialised securities which is based on either index or equity/debts or a commodity or a sectoral funds. It is also traded like any other securities on stock exchanges and very similar to mutual funds. It also follows the price changes throughout the day as they are bought and sold. Trading in ETF is very simple and hassle-free. It is similar to how you trade in equity shares. You can trade from your existing trading account with your broker or register yourself with a broker having membership of the BSE, fill up the KYC form, open a demat account, post margins and then commence trading.

Functionality	ETF	STOCK	MF
Real Time Pricing	✓	✓	✗
Ability To put Limit Orders	✓	✓	✗
Online Trading through Exchange	✓	✓	✗

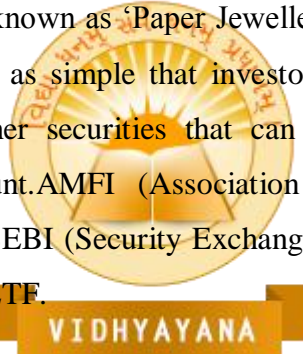


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Diversification Possible with a single unit purchase	✓	✗	✓
Return at par with the market / index	✓	✗	✗
Paperless investing	✓	✓	✓
Exit Load	✗	✗	✓
Brokerage	✓	✓	✗

◆ **Gold ETFs:**

Gold is the most precious metal for the Indians, as Gold represents not only a metal for them but also a matter of prosperity. Many phrases like, 'Old is Gold', 'Gold hearted', 'Worthful than Gold' represents the importance of gold in India. The first Gold ETF has been launched in India in 2002 however SEBI got approved in 2006<sup>i</sup> while the first Gold ETF of the world has been started from the year 1961 by the Central Fund of Canada by the Toronto Stock Exchange. Gold ETF is popularly known as 'Paper Jewellery'. Now-a-days, the procedure to invest into Gold ETF is as much as simple that investors are investing into it just like a dematerialised shares or any other securities that can be bought and sold from stock exchanges through demat account. AMFI (Association of Mutual Funds in India) is maintaining ethical standard and SEBI (Security Exchange Board of India) is the regulatory and controlling authority of Gold ETF.



An investment can be made in the same price approximately equal to one gram of 0.995 pure gold. Investors can buy and sell even a small unit of gold nearly at a wholesale price. The unit is listed and traded on the stock exchanges of India with a minimum lot size which is almost a one unit. The investment in Gold ETF is also highly liquid and having a high marketability. The accumulation of units of Gold ETFs helps the investors to release the money by selling them whenever customers need it for emergency or wants to purchase jewellery to oblige the social functions.

Below prepared hexagon cluster shows the participants of the Gold ETFs:



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Most important attractive features of Gold ETF are that the risk associated to safeguard the physical gold can be avoided, no making or delivery charges, no deduction in weights when returned, no STT (Securities Transaction Tax), no storage issue and fear of theft easy entry and exits, easy transfer of money from demat to saving bank account etc.

The only disadvantage noticed here is that all the investments are in white or on paper, the Gold ETF cannot give the facility to conceal the black money by investing the cash into gold.

Parameters	Gold ETFs <sup>iii</sup>	Jewelers	Banks
Purchase & Sale mode	Demat form	Bar/coin/jewellery	Bar or coin
Security of asset	Taken care by fund	Investor's concern	Investor's concern
Transparency	Very high	Very low	High
Impurity risk	Nil	High	Nil
Pricing for retail investors	Transparent, will be traded on BSE	Neither standard nor transparent	Non-standard. High.
Selling back	Sell back on exchange	Conditional and uneconomical	Restricted. Mark up 10-15% typically
Bid ask spread	Very low	Very high	Can't sell back
Denomination	1gm and in multiples of 1gm	Available in standard denomination	Available in standard denomination
Wealth tax	No	Yes	Yes



Long-term capital gains tax	Applicable after 1 year	Applicable after 3 year	Applicable after 3 years
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◆ **Sovereign Gold Bonds (SGBs):**

Sovereign Gold Bonds is another best option for the investors who are in search of investing into paper gold than physical gold. It is in form of government security issued by RBI (Reserve Bank of India) on behalf of Government of India like Treasury Bills. The bond was firstly launched in 2015. It is to be issued in cash denominating in the grams of gold and redeemed also into cash on maturity. The investors get fixed interest at the rate of 2.5% during the holding of SGBs, and will get the market value of gold at the time of maturity. If the investors hold the SGBs till the end of the maturity, they do not have to pay capital gain tax. And moreover, during the holding the SGBs, if the investors are in need of money, they can get a loan by putting a gold as collateral against loan.

To invest into SGBs, investors may go to issuing banks or SHCIL (State Holding Corporation of India Ltd.) offices or may go to designated post offices or may download the application form directly from the website of RBI<sup>iv</sup>. At presents, total 38 schemes have been issued by the RBI in the market.

◆ **Gold Derivatives:**

The most common derivatives are of three types – Futures, Forwards and Options. These are bilateral contracts between the investors and brokers which work on the trade on margin system. By doing the contracts, the investors are allowed to speculate on gold price on the future value of gold.

A Gold Future/option is a contract which gives right the investors with gold either to buy or to sell bullion at a future date at an anticipated predetermined price.

MCX- an exchange to trade bullion has already launched the contracts till December 2020 up to the expiry date of December, 2021<sup>v</sup>.

## Research Methodology

### ❖ Objectives of the research study:

- (1) To analyse the pragmatic view by comparing the demand and investment of Gold ETF and Physical Gold.
- (2) To find out the facts and figures about the tendency of investors with respect to Paper Gold especially for Gold ETFs in India
- (3) To focus on the investment in paper gold during and after the lockdown for covid-19.
- (4) To understand the mechanism, attractive and disliking features of Gold ETF against physical gold.
- (5) To take the opportunity of conducting the research paper by providing small contribution on maintaining the gold investment through Gold ETF if not possible in physical gold due to lockdown and many other reasons mentioned in the attractive features of Gold ETFs.

### ❖ Sampling procedure and Sample Selection:

- The research study is conducted to view the investment in Paper Gold compared to Physical Gold, the population area of the research study is the data about Paper Gold and Physical Gold Since its inception.
- However, the main motive of this study is to see the effect lockdown due to covid-19 on Gold ETFs, the Sample of the study is to be kept limited to Gold ETFs than all the forms of Paper Gold.
- On this basis of objective of this study, the Sample is selected on base of Judgmental Sampling Method.

### ❖ Data Source and Data Collection:

- The secondary data collection method is used for this research study as the study focuses on demand for paper gold.



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- While the data is collected from the authentic websites like website of AMFI, SEBI, Bloomberg, World Gold Council etc.
- As the research study is based on the changes in the effect of gold ETF during the current situation of covid-19, the finding will be made on the basis of past 15 months data from January 2019 to April 2019 only. However, the research study also includes one chart on the performance of Gold ETFs from the year the Gold ETF was registered with SEBI to see the changes made in the demand of Gold ETFs year by year.
- The reason behind taking 15 months instead of 12 months is to see the effect of changes in the demand of Gold ETFs in the month of January, February and March of 2019 also to compare with the data of 2020 in the same month.
- Out that data our main focus is on the last four to five months as since December the effect of covid-19 have been seen in the world. However, in India the effect of corona virus started from February 2020 and the lockdown underway since March 2020. The research study's finding and conclusion will be mainly based on the data of last three months.

❖ **Significance of the research study:**

- (1) If the **investors** who are interested in investing into gold will go through this research study, they will be definitely move towards investing into Gold ETF rather than to invest in physical gold.
- (2) The research study also benefited to the **Gold ETF providers and agents** as all the benefits of Gold ETFs and procedures to invest in Gold ETF have also been provided.
- (3) Another view point regarding significance is that if this paper will publish, it may be considered as an **indirect advertisement** of Gold ETF on behalf of **AMFI**.
- (4) The **Government** will also be benefited with this research study as this study shows that even in the lockdown situation, it is possible to maintain the savings and investment of the economy. The Governments should focus and promote the paper gold to stop black money invested in the physical gold.



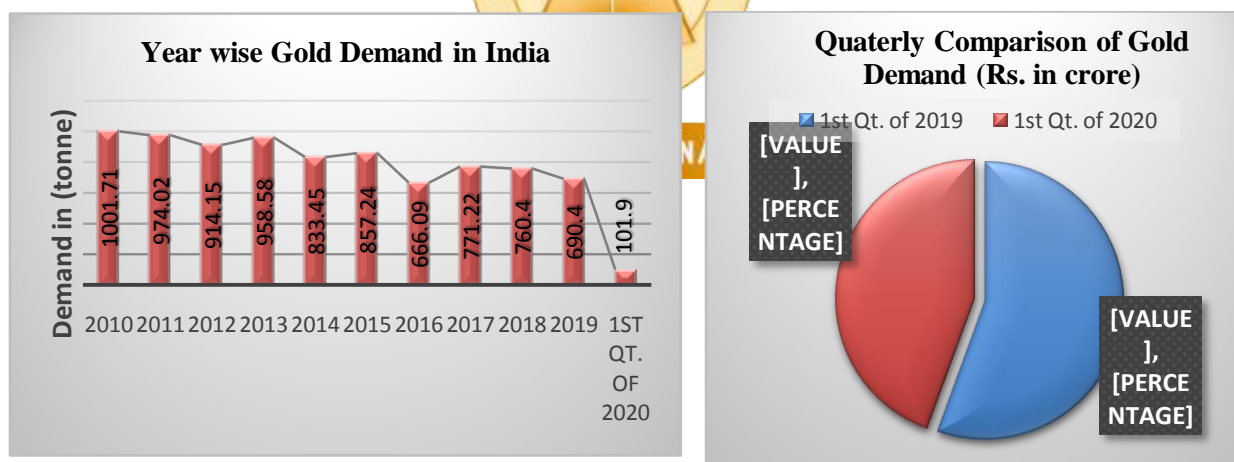
(5) The ultimate advantage of this paper will obtain in general to the **Economy** of India. With the rise of an investment in paper gold, the financial market also goes up and it will show that India is developing not only in terms of investment but also in terms of adopting modern and electric instruments of investment.

### Data Analysis and Interpretations

#### ❖ About Physical Gold:

The data analysis has been made by graphical presentation only as the data period is too short to analyse. In India the post Covid-19 period is only 3 months, therefore it is not proper to made statistical analysis. However, it will be suggested to the other researcher that they will be initiated the same research by analysing the pre and post situation with paired – ‘t’ test after the period of 6 months to covid-19.

Let it first see the effect of covid-19 on the demand of physical gold as compared to earlier period. The below are the two charts which shows the comparison of demand of gold.

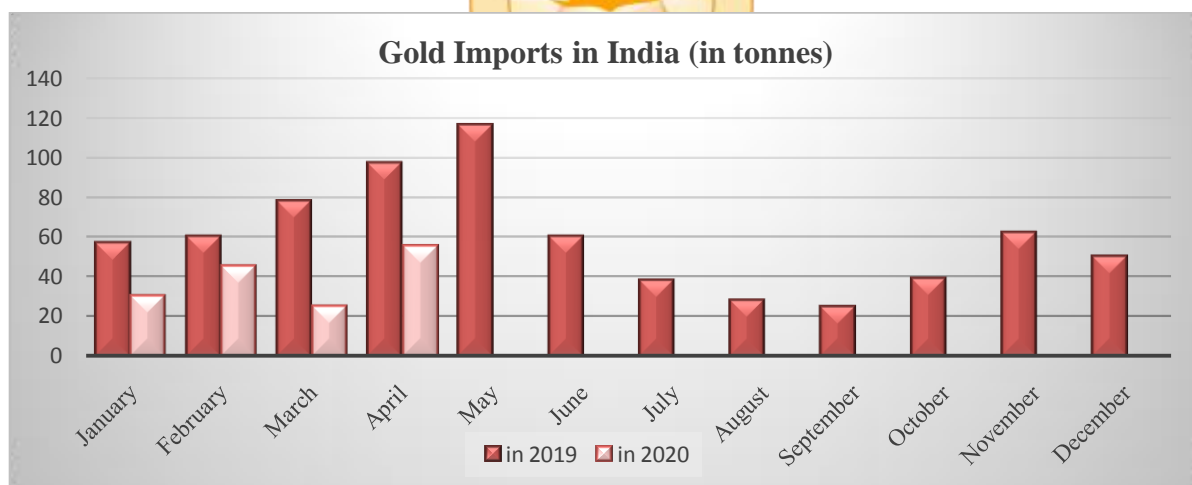


(Data Source: Bloomberg)

In the first above chart of ‘Year wise Gold Demand in India’, it is easier to understand that the demand of gold in India is decreasing in terms of tonnes since the year 2010<sup>vi</sup>. In 2010, the gold demand in India was crossed the thousand tonnes while it has been seen goes decreasing to 690.4 tonnes in 2019<sup>vii</sup>. Almost 30% decrease in demand have been seen in last 10 years. The last column bar of that chart indicates the data of only 1<sup>st</sup> quarter of 2020 which

shows that during the 1<sup>st</sup> quarter of 2020, demand of gold in India remains 101.9 tonnes only<sup>viii</sup>. From this data we can approximately assume that the demand of gold in India will keep up to 400 to 500 tonnes in the year of 2020 except India will gain quick control on covid-19 before the Diwali of 2020. However, some analyst can claim that this chart is enough to analyse the covid-19 effect on gold demand. The second chart will definitely clear the doubts of all those.

The second chart prepared above is a pie chart of 'Quarterly comparison of Gold Demand in India in terms of rupees in crore'. The chart shows the comparison of the gold demand in India between the 1<sup>st</sup> quarter of 2019 and 1<sup>st</sup> quarter of 2020. The blue pie represents the data of 1<sup>st</sup> quarter of 2019 while orange pie represents the data of 1<sup>st</sup> quarter of 2020. In the 1<sup>st</sup> quarter of 2019, the gold demand in India was around ₹. 47,000 crores while for the same period of 2020, it is decreased ₹. 37,580 crores only. The pie chart also shows that the gold demand in India is decreased around 12% as compared to 56% in the 1<sup>st</sup> quarter of 2019 to 44% in 1<sup>st</sup> quarter of 2020. The below chart represents the data about gold imports in India.



The data about Import of Gold in India (in tonnes) also shows downward trend in the months of January and February of 2020 as compared to 2019. In February 2020, the gold import was only 45 tonnes against 60 tonne in the same month of 2019 while in the month of January 2020<sup>ix</sup>, the gold import was only 30 tonnes as compared to 55 tonnes in the same month of last year 2019. The highest decrease has been seen the month of march from approx. 80

tonnes to only 25 tonnes i.e. nearly 70% downtrend has been noticed while in the month April 2020 almost 50% downtrend has been seen.

❖ **For Gold ETFs:**

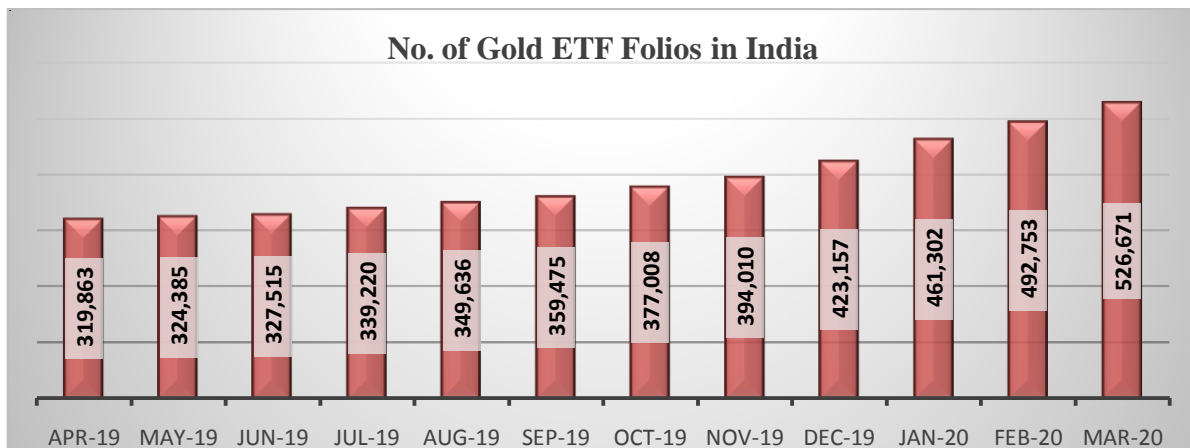
The data analysis and interpretation regarding gold ETFs is very much important for this study as this research study is conducted with special reference to the Gold ETFs. The Gold ETF is one of the most important electric mode of investing into paper gold.

The below mentioned table represents the entire data of gold ETFs of last year from April 2019 to March 2020. It includes the No. of folios of gold ETFs, Fund mobilised during the month, repurchase or redemption, AUM (Assets under Management) and Average AUM in rupees.<sup>x</sup>

Year Wise Data	No. of Gold ETF Folios	Fund Mobilized (₹. in Crores)	Repurchase/ Redemption	Net Inflow (+ve)/ Outflow (-ve)	AUM (₹. in Crores)	AAUM (₹. in Crores)
Apr-19	3,19,863	4.53	14.23	-9.70	4,594.06	4,479.92
May-19	3,24,385	20.25	46.36	-26.11	4,606.69	4,482.57
Jun-19	3,27,515	21.00	36.91	-15.91	4,930.44	4,641.48
Jul-19	3,39,220	28.48	46.14	-17.66	5,080.47	4,909.28
Aug-19	3,49,636	161.60	16.32	145.29	5,798.52	5,451.72
Sep-19	3,59,475	98.10	53.99	44.11	5,613.22	5,666.58
Oct-19	3,77,008	42.02	73.47	-31.45	5,652.02	5,574.01
Nov-19	3,94,010	39.93	32.26	7.68	5,540.40	5,514.72
Dec-19	4,23,157	33.23	6.39	26.85	5,767.68	5,516.34
Jan-20	4,61,302	226.19	24.05	202.14	6,207.00	5,938.76
Feb-20	4,92,753	1,595.95	112.62	1,483.33	7,926.12	6,478.37
Mar-20	5,26,671	243.49	438.44	-194.95	7,949.07	7,794.46

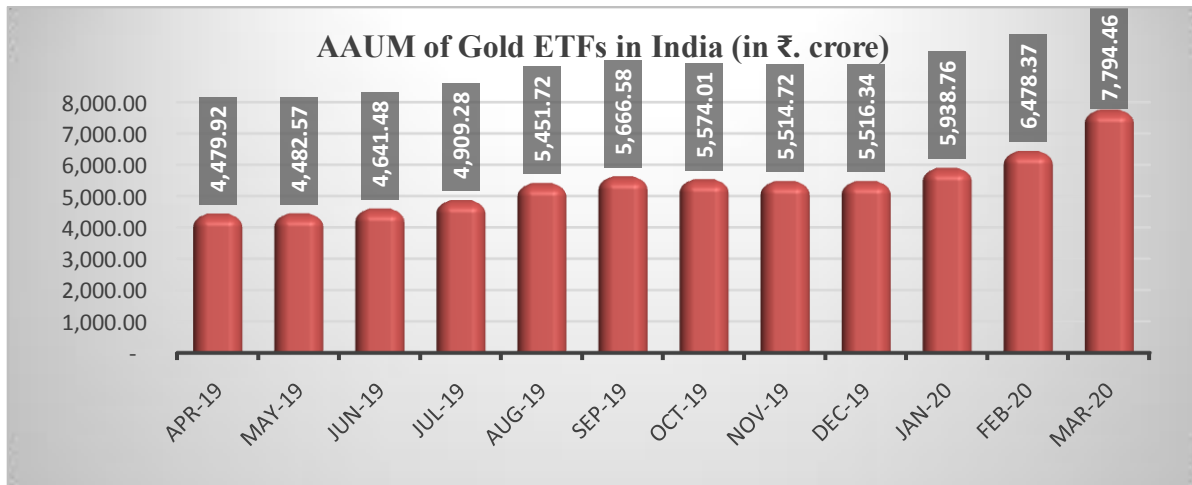


From the above table it can be seen that in the month of February 2020, fund mobilised through gold ETF shows historical highest of ₹. 1595.95 crores because of that reason, the AUM was increased from ₹. 6207 crores to ₹. 7926 crores approximately. The table can be easily understood from the below prepared two charts of No. of Folios and Average AUM of last with respect to Gold ETFs.



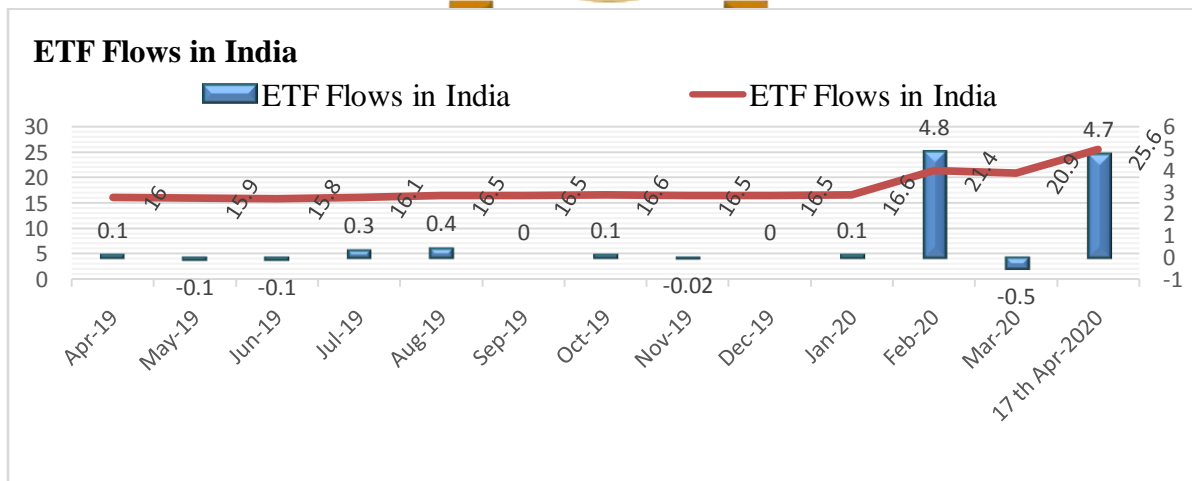
An orange column bar of the above charts shows the trend in numbers of gold ETF folios in India. The chart clearly shows the journey of gold ETF folios from 3.2 lakh approx. to 5.3 lakh approx during the last year from april 2019 to march 2020. Till november 2019, numbers of gold ETF folio increase at very low speed but after the covid-19, it has seen 33% increase in just last four months of December 2019 and three months of 1<sup>st</sup> quarter of 2020.

While the below prepared chart represent the the Average AUM data as mentioned in the above table.



At the first look, there has not been seen much difference between the above two charts if the data has ignored. The Average AUM also gone increased from around ₹. 4.5 thousand crores to ₹. 7.8 thousand crores approximately in the last year. In the above chart the highest column chart is of march 2020 which shows that in the month of march 2020 the Average AUM of Gold ETFs was highest in past year.

Apart from the above information, the below two charts represents the data about Gold ETF flows in tonnes in India as well in ASIA.

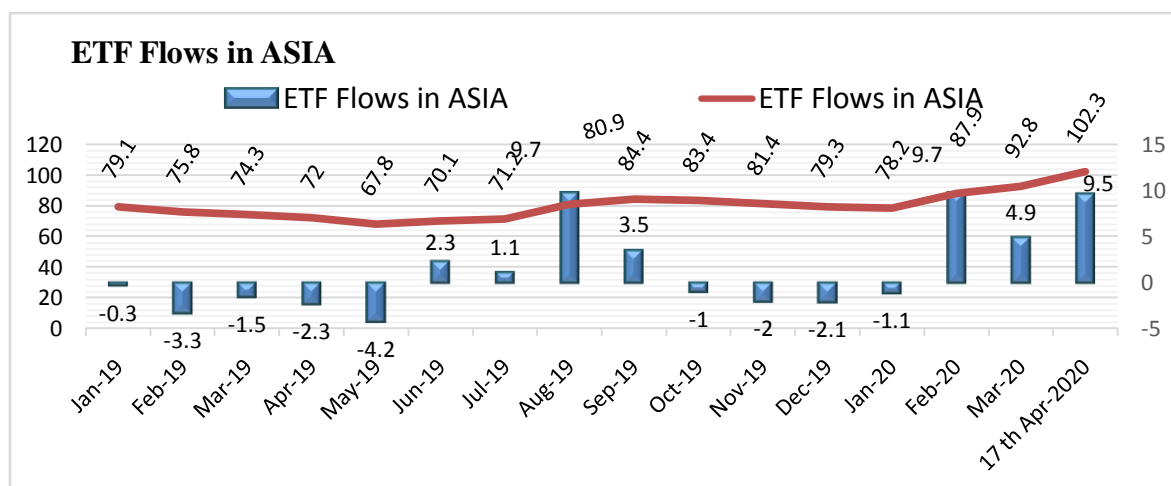


During the month of April 2019 to January 2020, the ETF flow in India changed around only from negative 0.3 to positive 0.4 tonnes. It shows that in terms on tonnes, the change in ETF flows in past year was almost less than half tonne. The two big blue column bar shows that in

the month of February and April 2020 the demand in tonnes through Gold ETFs was around 5 tonnes per month in terms of change.

The orange line in the chart shows the overall data of investment in tonnes made through Gold ETF crossed the 20 tonnes in past three months. In the month of April, till the date of 17<sup>th</sup>, the it has crossed the 25.6 tonnes in India.

The blue column bar and orange line of 1<sup>st</sup> quarter of 2020 indicates that the interest amongst the Indian investors with respect to Gold ETFs increased during the covid-19 situation. However, it is difficult to say that the interest of Indian investors is actually increased towards paper gold than physical gold as it may be due the effect of lockdown.



Data source: (<https://www.gold.org/goldhub/data/global-gold-backed-etf-holdings-and-flows>)

The ETF flow is not only increased in India but also increased in all the countries of ASIA. Except in August 2019, the blue column bar of 1<sup>st</sup> quarter of 2020 only shows the tallest in the entire chart. In the month of February and April 2020, the ETF flow in ASIA shows change of 10 tonnes approximately. The April 2020 is the only month which crossed the 100 tonnes of gold ETF investment made in the ASIA.

### Findings of the study



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- Gold demand in terms of tonnes in India fell 36% in the 1<sup>st</sup> quarter of 2020. It may be due to volatility of prices, or effect of covid-19.
- Gold demand in terms of rupees in India decreased by 20% in 1<sup>st</sup> quarter of 2020 as compared to the 1<sup>st</sup> quarter of 2019.
- 30% decrease in gold demand have been seen in last 10 years.
- Gold demand in terms of import has been noticed nearly 70% downtrend while in the month April 2020 almost 50% downtrend has been seen.
- Fund mobilised through gold ETF shows historical highest of ₹. 1595.95 crores in the month of February 2020.
- The numbers of gold ETF folio seen 33% increase in just last four months of December 2019 and three months of 1<sup>st</sup> quarter of 2020.
- The Average AUM of Gold ETF in ruppees has been increased only approx. 23% in eight months before the covid-19 i.e. till november -2019, while it is shown 42% approx. in just four months of after covid-19. i.e. december – 2019 and 1<sup>st</sup> quarter of 2020.
- God ETFs flow in India increased only 10% before the covid-19 effect of 8 months while after the covid-19 it has been augmented to 33.33% approximately in just 4 months.


## **Conclusion**

The investors' preferences for investing into gold have been seen highly changed, due to the reasons of covid-19 effect, nationwide and worldwide lockdown, economic volatility amongst the most of all countries in the world, high unpredictability changes in the gold prices etc. It is very difficult to rely on any one reason for decreasing the interest of investors in physical gold and increasing the interest of investors in paper gold specially in gold ETFs. However, it can be easily predictable that the interest of investors in physical gold has been seen down due to the lockdown and fear of speedily spreading the corona virus in humans. From the above research study, it can be said that there will be no harm at the end whether the investors invest their money in physical gold or in paper gold as the ultimate economic

advantage of investment will benefited to country only. The goal of money circulation through investment should be maintained and savings should be mobilised in anyway.

The growth rate of all most all the countries will be affected tremendously down. It has been a challenging year for not only India but also most of the countries of the world ahead. It is good for the country that investors move their preferences from physical gold to paper gold. Though the last 10 years trend is not much appreciable however the last four months trend is considerable in case of Gold ETFs and we should continue this trend and try to improve it to benefit our country. Moreover, the advantageous features of Gold ETF also should not be forgotten.

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