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Member's Perspectives

Regulation: Must for Investment

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We are discussing to celebrate an investment year, which was already officially announced, Likewise ministry of industry has moved to amend various acts and policies to provide the various incentives to the foreign investors' to increase the FDI (Foreign Direct Investment) in the country, which is the part of capital formation in the nation. But the major question which must be answered is by providing the penny incentives through tax rebate, will it attract the foreign investors. In the context of our financial indicators such as share market index and commodity market index are in pathetic situation, in fact regulation for commodity market is yet not to start. In this current context how can we expect the outsiders to invest in this country, how can we expect investors will invest without knowing proper information about our financial/ capital market indicators?

If we are really serious on this matter then government must provide facilities to improve both the stock and commodity market instrument. Despite the fact that we are having massive opportunity in agro industry, we don't even are able to produce enough agro products to fulfill even our own demand. So to build the sophisticated market mechanism to get rid of the hurdles of agro economy we can welcome FDI through it, but for that we must build the proper agro commodity exchange mechanism. The current issue in our capital market regarding the regulation of commodity derivative act seems less concern; don't know why this ignorance? But it is for sure that the wealthy commodity market will definitely attract the foreign investors to invest in this country. But it doesn't mean that only proper exchange mechanism will solve all the issue at the same time regulators must facilitate the warehousing system which certainly amenities farmers, it helps them to market their products, which definitely encourages the farmers to work resourcefully in agro industry. Warehousing system will help farmers to professionalize their products through warehouse receipts which can be used as collateral for credit obtained from banks, which definitely helps to increase the banking habits in the grassroots' level and helps economy to formulate a capital providing high liquidity.

The upcoming Nepalese commodity market regulation must answer clearly whether banks, foreign traders, retail individuals and institutes likes pension funds, mutual funds etc be allowed to participates in commodity derivative market. The market that opens platform allowing sales and purchase of commodity listed on the exchange, it provides investment tools to build the capital. In this true sense, exchange regulators must further define the price discovery made in the futures market and they must define the role and function of speculation in this market, they should also find out the benefits of different types of speculation. To eliminate the current rumor between speculation and manipulation and to control it they must find out the group of traders causing manipulation so that they can fix the maximum number of lots size for the speculation.

Capital formation can be done through this mechanism that is for sure, so the upcoming regulation must facilitate the market practices of trading on the price differences between two market prices of our existing price difference of various agro commodities. This trading practice through arbitrage mechanism helps to commercialize the agro commodities which eventually help to ease the farmers as well as definitely attract the foreign agro investors to invest in our soil. Serious efforts on the development on market will surely result to attract the FDI in the country. So the suggestion to the regulators is to pay a serious attention to build the vigorous and progressive capital market in the country.

"Gold 2013: An Investment or Bubble?"

By the end of the year 2012, the gold price had increased on an annual basis since a decade. What is the forecast for the gold price? Everyone have questions in their mind. What is the forecast for the gold price in 2013 and beyond? Will the 10 year uptrend continue in 2013 as well?

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What will be the Trend of the Gold Price in 2013 and Beyond?

A majority of gold investors view gold more as an insurance or store of value than a means of speculation. These investors, therefore, regularly take a longer-term view on gold as an investment. What trend of the gold price can everyone expect in 2013 and the following years? Gold price forecast shall never be completely accurate. How the key drivers shall influence the gold price and what the analysts are forecasting for 2013?

Review of Gold in 2012

The gold price, in the beginning of 2012, had started at around US dollar 1531 per ounce. Over the full year 2011, the price of gold had increased nearly by 9% despite the dips in the months of September, November and December. This had made 2011, the tenth consecutive year in which the gold price had increased. By December 31st, 2012, the gold price had further increased amidst high volatility to roughly reach a higher level of US dollar 1657 i.e., more than 8% from the beginning of 2012.

Drivers of the Gold Price

Commodity prices are mainly driven by the basic laws of supply and demand. The demand of any commodity comes to existence by its properties. Likewise, gold price is as the price of any other commodities, hardly driven by the basic principle of law of supply and demand. The demand for gold falls into four sectors, Central Bank, Jewelery, technology i.e. industrial and dental sectors and private investment.

If we look at 2010, the central banks had developed from net short to net long for the gold, driven by a decrease of sales from developed countries and an increase in buying activity from developing countries. Given the low percentage of central bank's asset allocation into gold in emerging countries like China (2% versus about 70% in region like US & Europe), there may be a solid chance that the official sector will continue to be a net long of gold in 2013 and even beyond 2013.

Over the last decade, jewelery demand for gold had decreased in relation to demand from other sectors, mainly the investment sector. High gold prices and economic uncertainties will likely keep gold demand from jewelery in 2013. India consumes mainly 28% of total gold demand. The demand has also been affected badly in India due to INR devaluation against USD. Indian rupee's deep devaluation and increase in import duty by Indian Government, eventually, has badly impacted on bullions demand. Gold touched all time record high in MCX in 2012 in terms of Indian currency. As for jewelry demand, high prices and potentially low/volatile growth is likely to dampen demand for gold for industrial uses in 2013.

Besides jewelry, the demand from the investment sector accounts for more than 40% of total demand. Amidst the money and debt creation by major economies and following the financial crisis, which started in 2007, the demand for gold as an investment reached record highs in 2011. While during the previous gold price peak in the second quarter of 2010, the demand came nearly in equal parts from gold securities like Gold ETF and physical gold in the form of bards and coins, this changed during the latest peak in the third quarter in 2011, when nearly 80% of investment demand flowed into physical gold, for example, in the form of professionally vaulted gold. This indicate that safety is a major concern for gold investors, who generally view physical gold or vaulted gold as more safe than so called 'Paper gold'.

The second important driver of gold to the demand factors is the supply side. The supply of gold is composed of mine supply i.e. gold extraction, production and recycling. Mine production reached a new high in 2010 and is expected to increase 10% in 2013. Gold recycling, i.e., gold scrap is also on a record level. The gold price and economic hurdles is likely to result a high level of risk.

Scenarios for 2013 and the Gold Price Trend

The overarching driver of the gold price for the year 2013 and beyond shall be the development of global financial crisis. The levels of debt piled up by Western governments and often also corporate/private sectors are still not sustainable. There is basically one scenario to get rid of this burden: disciplined deleveraging, i.e. reduction of debts. The alternative, which was pursued over the past years, is to create more debt. This could eventually lead to inflation levels significantly above the inflation rates we saw during the last decade in western currencies.

Either way, whether deleveraging, which will probably be long and painful ('the lost decade'), or a reduction of the real debt pressures by means of higher inflation will potentially preserve gold as an attractive insurance asset or store of value for many conservative investors in 2013 and beyond. Geopolitical risks, e.g. in relation to Iran,

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will support this position of gold as a 'safe haven' further.

Gold Price Forecasts 2013

For the fourth quarter of 2013, analysts surveyed by Bloomberg in November 2012 forecasted a level of US dollars 1,925- per ounce of gold.

The bullion bank Scotia Mocatta forecasts a rising gold price in 2013 and would not be surprised to see a gold price above US$ 2,200- per troy ounce of gold.

The French Bank BNP Paribas estimated in November 2012 gold to reach US dollars 1,675 per ounce in 2012 and US dollars 1,865 per ounce in 2013.

On the other hand, Thomson Reuters GFMS expects the peak of the gold price for end of 2012 or beginning of 2013 and a following decrease in the price of gold from 2013 on. In November 2012, members of the London Bullion Market Association forecast a gold price of US dollars 1,843 by September 2013. The global bank HSBC predicts a very similar gold price of 1,850 US dollars per ounce of gold in 2013.

The CEO of the largest US gold mining company Newmont Mining estimates that the price of gold in 2013 may increase to US dollars 2,550.

In November 2012, Deutsche Bank had updated its forecast on the gold price to US$ 2,000 by next year, i.e. 2013. Credit Suisse expects a gold price of US$ 1,840 in 2013, while in October 2012 private bank Coutts predicted gold prices to reach US$ 2,000.- in the coming months.

Outlook on Gold for 2013 and Beyond

The diversity of the analyst's predictions with regard to the gold price in 2013 and the following years mirrors the uncertainties in the global markets.

An interesting fact about gold is that it often performs well in scenarios of deflation (for instance driven by global debt reductions) but also in scenarios with higher than usual inflation rates (which could potentially occur as public debt level increases further).

Gold, therefore, tends to perform positively in times of economic uncertainties as well as in acute crises. Unfortunately, the global financial problems are not yet sorted out. Some credible commentators expect several more years of uncertainty and painful deleveraging, which could end only when we are approaching the next decade.

Thus, in the foreseeable future, a moderate allocation to gold will remain the imperative for many investors and could result in a positive trend of the gold price in 2013 and beyond.