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An Analytical Study on the Effect of Price Changes in Gold on Investment

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ABSTRACT

Gold is the most valuable asset and preferred investment by individuals as it preserves and protects wealth. It is considered as a safe haven investment as price of gold is usually negatively correlated to the stock markets and gold often rises when other markets fall. There are different metals of which gold is placed in high regard as an investment and is one of the most preferred investments in India which can be purchased in a variety of ways, including jewelry, coins, bars, gold exchange-traded funds, gold funds, and sovereign gold bond schemes. Gold represents a versatile investment proposition due to its dual nature as both a consumer good and an investment asset which allows it to provide effective diversification in times of financial turmoil. Gold is often considered to act as a hedge against market volatility as it has low correlation with equity. and introducing gold into one's portfolio can potentially reduce overall volatility, providing a more stable path towards achieving your financial objectives. It cannot be printed like currency or created out of thin air. Its scarcity and permanence have made it a hedge against currency devaluation or inflation and economic instability. Gold is tangible, highly liquidity across global markets and is universally recognized as valuable regardless of political or economic conditions. Its value tends to rise when confidence in other financial assets declines, particularly during periods of high inflation, economic uncertainty, or geopolitical instability. The year 2025 has witnessed upsurge due to economic conditions, geopolitical tensions, inflation rate, weakening of the currency and Central bank monetary policies. The paper focuses on identifying patterns & indicators that precede short term price movements, short term fluctuations in gold price which will provide insights for short term investors and traders on gold. The fluctuations in gold price has an impact on the middle class in their perceptions of their social status, savings decisions, investment decisions and wealth ownership. Traditionally gold is viewed as a safe financial asset and saving tool which provides pride especially in rituals, marriages, child birth occasions in families and dowries which has led to continuous demand even in the face of rising prices.

KEY WORDS: Asset, Diversification, Hedge, Liquidity and Wealth.

INTRODUCTION

In Indian culture, gold has been regarded with great respect and represents riches, prosperity and tradition in addition to its practical uses. With its timeless appeal firmly established in society. Gold plays a significant role in Indian culture and the country's economy through customs and religious ceremonies. However, there has been a noticeable price increase in the Indian gold market recently, drawing attention and raising concerns. From individual consumers to investors and governments, this spike in gold prices has important decision for all parties involved. Navigating this phenomenon's ramifications successfully requires an understanding of the fundamental causes.

LITERATURE REVIEW

Baur and McDermott (2010)[1] demonstrated that gold tends to maintain or increase its value during periods of market turmoil. Their study revealed a consistent negative correlation between gold and equity markets during times of financial stress, highlighting gold's role as a safe-haven asset. As such, gold provides diversification benefits and contributes to the reduction of overall portfolio risk in volatile market conditions.

Baur and Lucey (2010)[2] highlighted gold's distinct investment characteristics by differentiating between a hedge and a safe haven. According to their definition, a hedge maintains a consistently negative correlation with other assets under normal market conditions, whereas a safe haven exhibits this negative correlation specifically during periods of extreme market stress.

Shafiee and Topal (2010)[3] looked at the long-term factors that has an impact on gold prices, they discovered that inflation, interest rates, oil prices, and currency fluctuations had a big impact on how much gold was worth. According to their findings, gold prices increase when actual Interest rates decline as investors look for yield-preserving options, and they also serve as a hedge against currency devaluation when inflation is predicted to rise.

According to the World Gold Council (2022)[4,] the middle class's desire for gold has significantly decreased due to dramatic rise in prices over the previous ten years, particularly in semi-urban and rural areas. An approach towards priced financial assets, including regular deposits, modest savings plans, or even digital gold investments when they become available, frequently coincides with this fall.

Kapoor and Aggarwal (2020)[5] demonstrated that urban middle-income households in India possess a disproportionately large portion of their wealth in gold and real estate, frequently at the cost of more liquid and productive assets such as equity mutual funds. This tendency is indicative of both a lack of trust in formal financial systems and a cultural inclination towards physical assets. Additionally, financial literacy is a vital factor and households with financial literacy are generally better at diversifying their investments, utilizing options like gold ETFs or sovereign gold bonds instead of physical gold.

OBJECTIVES

1. To understand the importance of gold as an investment avenue
2. To identify reasons for changes in gold prices
3. To analyse the impact of gold price fluctuations on customers buying behaviour
4. To provide an insight for short term investors and traders on gold
5. To assess the value of gold which is important for availing loans

RESEARCH METHODOLOGY

Data is collected from primary and secondary sources.

Primary Data is collected through a well-structured questionnaire which is administered to 50 respondents

Secondary Data is collected from research articles and websites.

HYPOTHESIS

H0: There is a rapid change in Gold Price

H0: Customers are interested to invest in gold

H0: Customers are getting loans on gold

RESEARCH DESIGN

The study is descriptive and analytical in nature.

SAMPLING TECHNIQUE

A simple random technique is used for collecting data and is analysed using SPSS using correlation analysis.

SAMPLE SIZE

Responses are collected from 50 respondents.

FACTORS INFLUENCING GOLD PRICE MOVEMENTS

1.EXCHANGE RATE:

The price of a country's currency in relation to another currency is known as the exchange rate. It is observed that dollar's value rises in relation to other global currencies, the price of gold tends to decline in terms of US dollars, as a result of gold's increased value in foreign currencies. The US dollar's exchange rate has a significant impact on the price of gold in India. The price of gold fluctuates in response to changes in the value of the US dollar.

2.Interest Rate

There is a negative correlation between real interest rates and the valuation of gold where cost of incorporating gold into an investment portfolio is comparatively elevated when real interest rates are high, and conversely, it becomes relatively inexpensive when real interest rates are low. Consequently, as interest rates ascend, so too do the associated carrying costs. Nevertheless, the nature of this relationship is not linear. The prices of gold tend to exhibit significant increases predominantly during periods characterized by negative real interest rates.

3.**Silver Prices**

The prices of gold and silver exhibit a correlation with various commodity prices, including the global oil benchmark and the overarching trend of global inflation. The valuation of silver tends to increase in response to trade and growth disparities relative to the United States. Furthermore, the prices of silver ascend concomitantly with declining real interest rates. The prices of both precious metals increasetandem with economic advancements observed within emerging markets. Consequently, a direct relationship is established between the prices of silver and gold.

4.**Economic Implications**

Rise in gold prices has extensive consequences for numerous segments of the Indian economy, encompassing jewelry, retail, and exports. Mishra and Das (2020) evaluate the broader economic ramifications of escalating gold prices, underlining its impact on consumer expenditure, inflation rates, and trade balances. Furthermore, Chopra et al. (2020) investigate the sectoral repercussions of gold price variations, emphasizing the difficulties encountered by industries dependent on gold as a fundamental material.

5.Market Speculation

Investor behavior and speculative trading often create fluctuations in the price of the gold market. Dutta and Bose (2020) Analyze the impact of market speculation on gold prices. Highlighting the role of investor sentiment and collective behavior in improving modifications in cost. Furthermore, Agarwal and Jain (2021) discuss the prevalence of speculative trading techniques. in gold trading and how they influence the efficiency of the market.

DATA ANALYSIS AND INTERPRETATION

H01: There is a rapid change in Gold Price

Correlations			
		position	fastchanges
position	Pearson Correlation	1	.846
	Sig. (2-tailed)		.051
	N	50	50
fastchanges	Pearson Correlation	.846	1
	Sig. (2-tailed)	.051	
	N	50	50

In the above table position indicates gold prices, fast changes indicate rapid changes

CORRELATION VALUE r=0.846 is close to 1 it means that there is a strong correlation between gold prices and fast changes.

sig. (2-tailed value) =0.051 is equals to 0.5 then we can conclude that there is no significant difference between gold price and fast changes.

Hence null hypothesis is accepted

H02: Customers are interested to invest in gold

Correlations			
		position	investing
position	Pearson Correlation	1	$.802^{*}$
	Sig. (2-tailed)		.049
	N	50	50
investing	Pearson Correlation	$.802^{*}$	1
	Sig. (2-tailed)	.049	
	N	50	50
*. Correlation is significant at the 0.05 level (2-tailed).			

In the above table, position=gold prices, investing=funding in gold

CORRELATION VALUE r=0.802 is close to 1 it means that there is a strong correlation between gold prices and investment.

sig. (2-tailed value) =0.049 is less than 0.5 then we can conclude that there is no significant difference between gold price and investment.

Hence null hypothesis is accepted

H03: Customers are getting loans on gold

Correlations			
		position	loan
position	Pearson Correlation	1	.985*
	Sig. (2-tailed)		.052
	N	50	50
loan	Pearson Correlation	.985*	1
	Sig. (2-tailed)	.052	
	N	50	50
*. Correlation is significant at the 0.05 level (2-tailed).			

In the above table, position = gold prices, loan = amount on gold for interest

CORRELATION VALUE, r=0.985 is close to 1 it means that there is a strong correlation between gold prices and gold loan.

sig. (2-tailed value) =0.49 is less than or equals to 0.5 then we can conclude that there is no significant difference between gold price and gold loans

Hence null hypothesis is accepted

FINDINGS

From the study carried the finding are as follows

- 40% of the respondents are females and 60% respondents are males aged between 21-35 years who are private employees and businessmen.
- Most of them have opined that they monitor changes in gold prices occasionally.
- 84% respondents have opined that rapid change in gold price influences investment decision.
- It is found from the study that inflation is the main reason behind fluctuations in gold prices
- 78% of the respondents have opined that rapid changes in gold has created positive impact in gold as an investment
- Most of the have opined that investment in gold is for long period of time

- The major factor influencing the decision to invest in gold is because of market trends, i.e. 72% responded for the same
- 73% have opined that they prefer a gold loan over a personal loan in times of urgent needs.

CONCLUSION

The surge in gold prices in India is a multifaceted phenomenon shaped by economic, geopolitical, and socio-cultural factors. India's financial environment still depends heavily on gold both commercially and culturally. The study demonstrates that a variety of national factors influence changes in gold prices. A better grasp of the factors influencing gold prices is essential as India shifts to more formal and digital investing channels. From the study we conclude that irrespective of rapid changes in gold prices, there is a huge demand for investing in gold, which is considered as a valuable investment opportunity.

SUGGESTIONS

It is suggested that gold is a safe liquid asset that yields profits for future savings and it's easy to obtain loan on gold during an emergency.

SCOPE FOR FUTURE RESEARCH

- Further study can be done on the impact of interest rate announcements, inflation reports and geopolitical tensions that influence short-term movements.
- An analysis of intraday volatility patterns in gold prices can be done
- Investor sentiment analytics by applying social media and news sentiment mining to predict hourly or daily gold price changes.

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