

India Buys IMF Gold to Boost Reserves as Dollar Drops

By Thomas Kutty Abraham and Kim Kyoungwha
Bloomberg.com
November 3, 2009

India, the world's biggest gold consumer, bought 200 metric tons from the International Monetary Fund for \$6.7 billion as central banks show increased interest in diversifying their holdings to protect against a slumping dollar.

The transaction, equivalent to 8 percent of world annual mine production, was the IMF's first such sale in nine years and propels India to the ninth-biggest government owner globally, according to figures from London-based research company GFMS Ltd. The country previously held 358 tons, the data show. The news was a "surprise because everybody was talking about China being the buyer," said James Moore.

"The fall in the U.S. dollar seems to be pushing all the central banks to strengthen their portfolio with gold," said N.R. Bhanumurthy, professor at the National Institute of Public Finance and Policy in New Delhi. "Gold is a safe store of value compared to the U.S. dollar."

Gold for immediate delivery rose 0.2 percent to \$1,061.48 an ounce at 1:20 p.m. in London and was less than 1 percent below its record \$1,070.80 an ounce reached Oct. 14. India purchased the gold at an average price of about \$1,045 an ounce, according to an IMF official on a conference call.

IMF Finances

The IMF sale accounts for almost half the 403.3 tons that the Washington-based lender in September agreed to sell as part of a plan to shore up its finances and lend at reduced rates to low-income countries. Asian nations, which have amassed stockpiles of foreign currency reserves since the 1998 financial crisis, have shown increased interest in diversifying out of U.S. assets as the dollar loses value against other currencies.

"The most important thing is that people want gold even at these prices," said Ghee Peh, head of mining research, with UBS AG in Hong Kong. "There's good support for prices for now" from the IMF's disposal of bullion, he said.

The transaction involved daily sales from Oct. 19 to Oct. 30 at market prices and is in the process of being settled, the IMF said in a statement yesterday.

The purchase didn't signify any loss of confidence in the dollar, nor did it show that the metal's appeal was increasing, India's Finance Minister Pranab Mukherjee said.

Loans to Poor

Proceeds from the sales and other IMF resources as well as individual contributors would help pay for discounted interest rates on loans to low-income countries, the IMF said in July. It plans to grant as much as \$17 billion in extra loans to poor nations through 2014. The 403.3 tons the IMF agreed to sell amount to 1/8 of its stockpile.

Suresh Tendulkar, an economic adviser to Indian Prime Minister Manmohan Singh, said in an interview in July that he was urging the government to diversify its foreign-exchange reserves and hold fewer dollars. China and Russia have also stepped up calls for a rethink of how global currency reserves are composed and managed.

"There seems to be consensus among the central banks that it's better to cut down on currency holdings and diversify into assets like gold, which has upside potential," Krishna Reddy, a precious metal analyst at Way2Wealth Commodities Pvt., said in Mumbai. "The Reserve Bank of India gold purchase is a clear reflection of this belief."

More Sales

Russia, China or Brazil may buy the rest of the IMF gold for sale, said Moore from the TheBullionDesk.com.

China, the world's biggest gold producer, has increased reserves of the metal by 76 percent to 1,054 tons since 2003 and has the fifth-biggest holdings by country, Hu Xiaolian, head of the State Administration of Foreign Exchange, said in April.

The nation may purchase some of the 403.3 tons of gold being offered by the IMF, Market News International reported in September, citing two unidentified government officials.

"It's more or less certain that government of India expects the U.S. dollar to weaken," said Suresh Hundia, president of the Bombay Bullion Association Ltd., in an interview today. The purchase is "not so much about India betting gold prices will increase but that the dollar will fall. They are looking to diversify their foreign exchange reserves."

India's foreign-exchange reserves advanced \$684 million to \$285.5 billion in the week ended Oct. 23, the central bank said Oct. 30. That included foreign-currency assets of \$268.3 billion, gold reserves of \$10.3 billion and the special drawing rights with the IMF.

Off-Market Transactions

The lender has said it is ready to sell directly to central banks and later make transactions on the open market if necessary. The IMF official declined to say yesterday whether other central banks have expressed interest in purchases.

Given the "well-publicized concerns of many central banks over the level of their exposure to the U.S. dollar, further off-market transactions must be a clear possibility," Aram Shishmanian, chief executive of the World Gold Council in London, said in a statement.

The IMF, which helped shore up economies from Pakistan to Iceland over the past year, has sold gold on several occasions. The last transaction was authorized in December 1999 and took place off-market between then and April 2000.

"Gold production has been declining for the past seven years, while demand, particularly the investment demand, has been growing steadily," Way2Wealth's Reddy said. "Central banks and even ordinary investors want to own more gold."