India

Overweight *(no change)*

Highlighted Companies

Titan Co Ltd

ADD, TP Rs3600, Rs3470 close

Higher gold prices generally imply better relations for Tanishq & CaratLane. This is because the demand for wedding jewellery is relatively inelastic, in value terms, and the making charges paid by Titan's customers are linked to the price of gold, & also Titan hedges 100% of its gold inventory. Demand in 2HFY25F is expected to be better than in 1H due to higher wedding days & the festive season.

Muthoot Finance Ltd

ADD, TP Rs1420, Rs1952 close

Muthoot Finance will be one of the gold financiers which will have a direct benefit as customers return to top-up their loans when gold prices rise. With the gold loan AUM of Rs 902bn, Muthoot Finance is the largest gold loan NBFC by a huge margin. The NBFC is backed by a strong promoter and robust management team with a proven track record. It has the most stringent lending practices among peers. The stock has marginally corrected after the RBI lifted its ban on IIFL and is currently trading at 2.9x FY26F P/BV.

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Metals and Mining

Gold – The Trump Impetus

- Russia's experience (US$ assets frozen by the West) & Trump's warning to BRICS to drive central banks of these nations to diversify FX holdings into gold.
- Russia's experience shows that higher gold reserves, as a % of central bank reserves (29% in this case), will help any nation tide the wave of sanctions.
- With mine output being slow and Indian & Chinese central banks buying huge gold, high prices are needed to draw old gold inventory & meet rising demand.

Gold: The mega bull run is yet to begin

In recent years, several seminal events have positioned gold as central banks' favoured reserve asset. Foremost among these was the freezing of Russian US dollar or USD assets by the EU and the US, which underscored the vulnerability of fiat reserves. Secondly, the yuan's decline as a viable alternative reserve currency further cemented gold's appeal. Additionally, US President-elect Donald Trump's warning that any move away from the dollar would be perceived as an attack on the currency, and such countries potentially facing 100% import tariff in the US added to the urgency in diversification of reserves. Russian President Vladimir Putin's meticulous planning before the Ukraine invasion ensured that its central bank assets were diversified, with as much as 29% held in gold, providing relative stability to its currency despite sanctions. Russia's experience highlights the vulnerability of USD reserves and the importance of gold as a strategic asset. This has prompted central banks of India and China to diversify their reserves into gold—India now holds 10% of its reserves in gold, while for China, the figure is 5.3%. Meanwhile, traditional demand remains robust, creating conditions for a surge in the price of the yellow metal.

Gold purchases of Indian and Chinese central banks to pick up pace

Russia played it exceptionally safe by having 29% of its central bank's reserves in gold, and India is already at 10%. However, China currently holds only 5.3%. While President Xi Jinping has consistently professed the merger of Taiwan with the mainland as an unfinished agenda, achieving this goal—whether through force or posturing—requires maintaining high gold reserves. Like Putin, Xi understands that any move to attack Taiwan would result in sanctions and the freezing of USD and Euro assets. To safeguard its financial stability, China must diversify its reserves. Even if Xi does not intend to attack Taiwan, maintaining gold reserves for posturing purposes becomes essential. In summary, both Indian and Chinese central banks, in our view, will continue to buy gold.

To meet demand, price impetus is needed to bring out stored gold

As mine production is expected to grow slowly—at a maximum of 2% CAGR—the gap between supply and demand needs to be filled by consumer-held gold inventory. However, to encourage the release of this gold, higher prices will be essential, as consumers are more likely to sell their gold when prices rise. This price-driven adjustment is crucial for meeting global gold demand, especially given the constraints on mine production.

Figure 1: US President-elect Donald Trump's open threat against de-dollarization serves as a clear impetus for central banks to diversify their reserves into gold

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Gold – The Trump Impetus

In recent years, several seminal events have occurred that position gold as the central banks' favoured reserve asset. The first and foremost was the freezing of Russian USD assets by the EU and the US, highlighting the vulnerability of fiat reserves. The second is the decline of the yuan as a viable alternative reserve currency due to China's increasingly unpredictable policy environment. Lastly, and perhaps most importantly, US President-elect Donald Trump's warning that any move away from the dollar would be perceived as an attack on the currency. He cautioned that such countries could face 100% import tariff in the US. At the same time, traditional demand for gold remains robust, which is likely to push its prices into uncharted territory. Don't be surprised if gold touches US$5,000 per ounce in the near future.

Central banks are set to become the biggest demand drivers for gold

Developing and BRICS nations' central banks are expected to be the biggest demand drivers for gold in the coming months and years. While we shouldn't expect a floodgate-like buying spree from central banks, as the Indian and Chinese economies continue to grow, their central banks are likely to steadily increase gold as a percentage of their USD reserves.

The Russia-Ukraine war has re-emphasized the need for diversification of central bank reserves for third-world countries ➤

Western countries, including the US, EU and their allies, following Russia's invasion of Ukraine in Feb 2022, froze Russia's USD assets kept in their financial institutions. These measures aim to restrict Russia's ability to access its substantial foreign currency reserves held in institutions outside its borders, particularly USD and EUR assets.

- **Scale of freezing:**
  - Russia had over US$640bn in foreign reserves at the start of 2022.
  - Approximately US$300bn of these reserves, held in Western financial institutions or denominated in Western currencies, were frozen by sanctions.
- **Purpose:**
  - To cripple Russia's ability to finance its war in Ukraine.
  - To destabilize the Russian economy by limiting access to foreign currency for trade and debt payments.
- **Mechanism:**
  - Western central banks froze assets held in their systems.
  - Restrictions were placed on financial institutions, thereby preventing any transactions involving Russian reserves.
  - Prohibitions were applied to purchasing Russian gold or other alternative reserve assets.
- **Impact on Russia:**
  - Forced Russia to rely on reserves held in gold and Chinese yuan.
  - Increased the use of alternative currencies like the Chinese yuan and barter trade mechanism.
  - Accelerated de-dollarization efforts within Russia and among its trading partners.

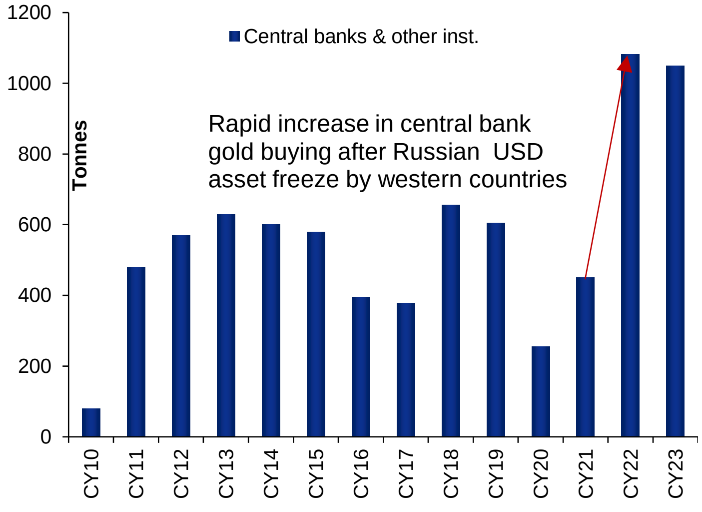
- **Global financial implications:**
  - Raised concerns about the safety of sovereign reserves held in Western financial systems.
  - Led other countries, particularly in the Global South, to explore alternatives to the dollar-dominated financial system.
  - Bolstered the role of gold and other currencies, including the yuan, in global reserves.

As a result, there has been a shift in global reserves management:

- Countries like China, India, and Gulf nations are diversifying their reserves to reduce dependence on USD and EUR.
- Increased interest in alternative systems, including central bank digital currencies (CBDCs).

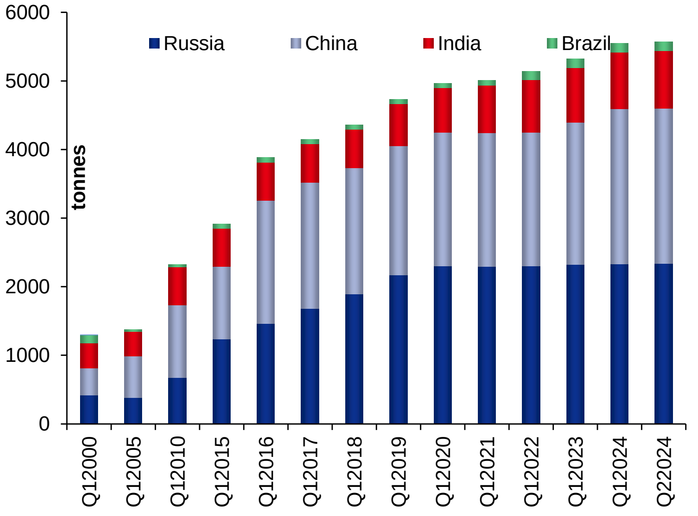
Gold buying by central banks of BRICS nations has gained significant momentum over the last couple of years ›

Figure 2: Central banks and financial institutions significantly increased their gold purchases following the freezing of Russian USD reserves by Western countries



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

Figure 3: BRICS nations' gold reserves have increased exponentially during the last two decades

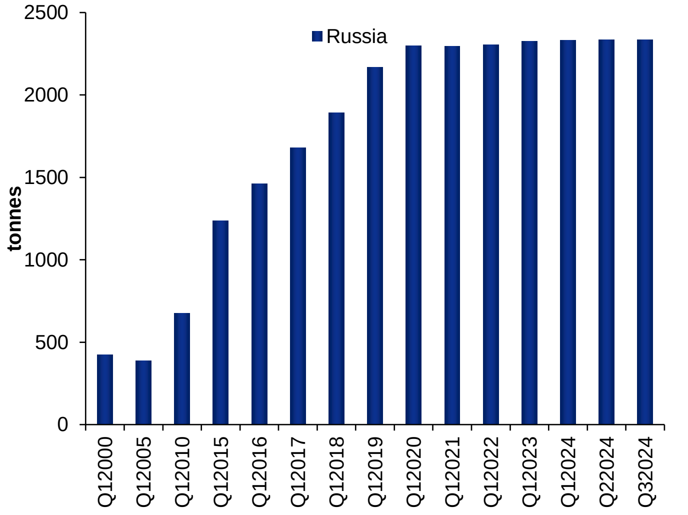


SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

Russia was the first country to significantly diversify its central bank reserves into gold ›

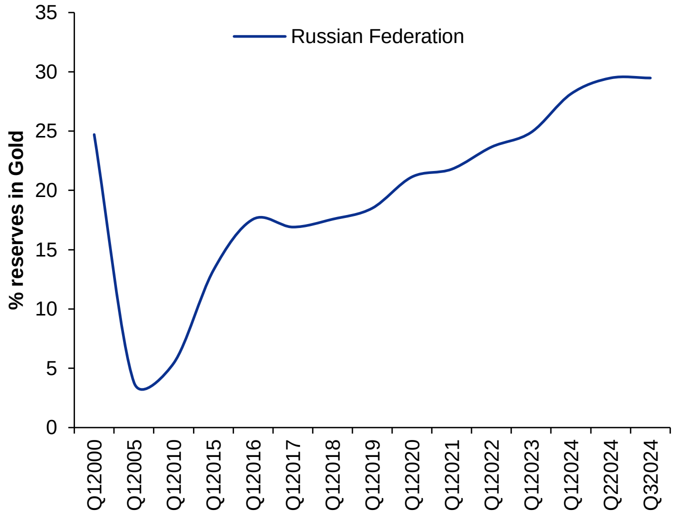
It appears that Russia foresaw the freezing of its USD assets by Western countries. The evidence for this lies in the fact that it stopped purchasing significant amounts of gold as far back as 1Q2020, two years before its invasion of Ukraine.

Figure 4: It appears that Russian President Vladimir Putin was planning the invasion since several years ago and expected the freezing of the country's USD assets by Western countries



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

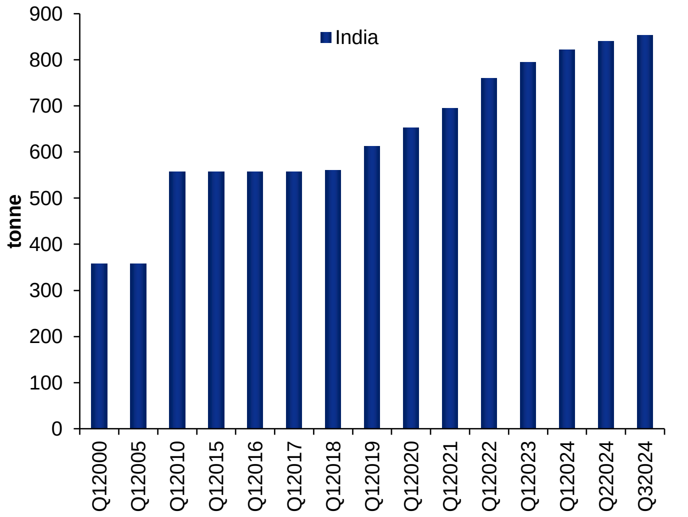
Figure 5: Russian central bank's gold reserves, as a percentage of overall reserves, peaked in 1Q2020 i.e. two years before its Ukraine invasion



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

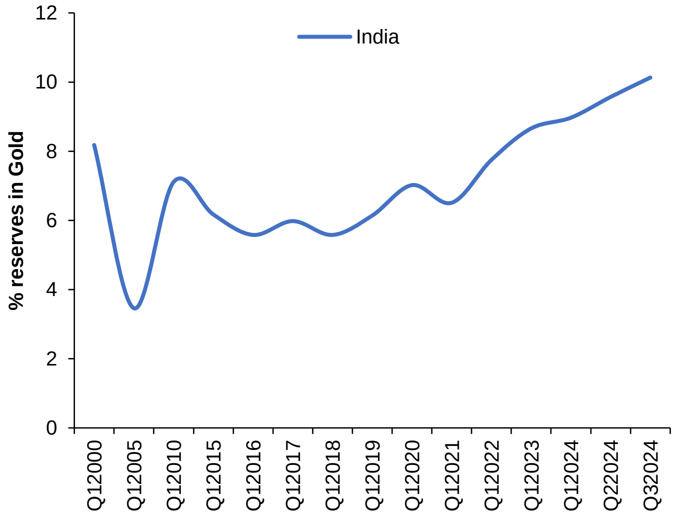
India's central bank has started buying gold aggressively following the freezing of Russia's USD assets by Western countries

Figure 6: It appears that the Indian central bank is always a big believer in gold, however the intensity of its purchases increased from 2019



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

Figure 7: The Indian central bank's gold assets, as a percentage of its total reserves, have been continuously rising; given India's advocacy for a multipolar world, its gold reserves are likely to increase further

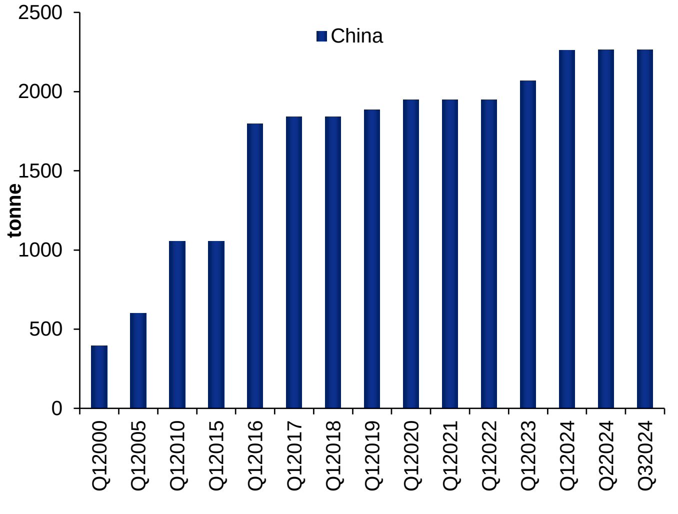


SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

The Chinese central bank currently holds the lowest percentage of gold in its reserves; if China's professed strategic objectives are real, it is expected to buy gold aggressively in the coming years

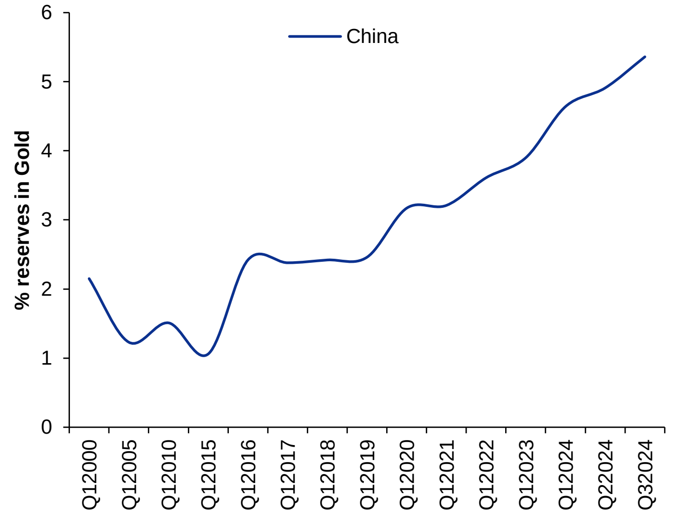
China has stated its intention to merge Taiwan with the mainland and is willing to go to any extent to achieve this, including the possibility of a war. If China invades Taiwan, it can expect the same treatment from the West that Russia received. Therefore, to maintain its position and preserve leverage, China needs to aggressively buy gold.

Figure 8: China's gold reserves are 3x that of India



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

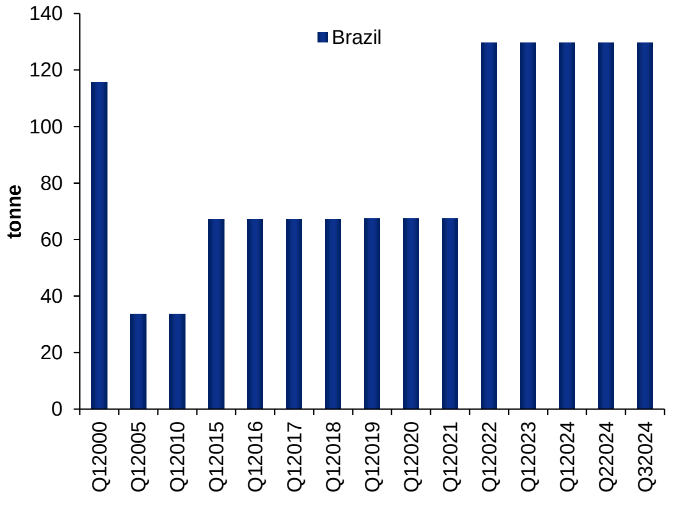
Figure 9: However, gold constitutes just 5.4% of China's central bank reserves; if China intends to be seen as willing to take aggressive action against Taiwan, this percentage needs to keep rising



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

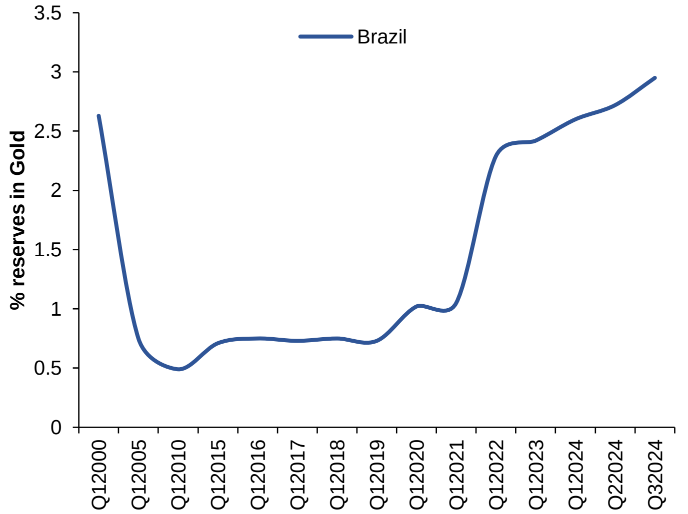
Brazil may not buy gold aggressively as it has no such strategic objective

Figure 10: Brazil's gold reserves is stagnant (in tonne or t)



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

Figure 11: Depleting USD reserves are leading to increasing gold as a percentage of central bank reserves



SOURCE: INCRED RESEARCH, WORLD GOLD COUNCIL

US President-elect Donald Trump's latest threat to BRICS nations provides further impetus for gold buying

Figure 12: US President-elect Donald Trump's open threat to BRICS nations will provide a further impetus for India and China to increase their gold purchases


Donald J. Trump
@realDonaldTrump

The idea that the BRICS Countries are trying to move away from the Dollar while we stand by and watch is OVER. We require a commitment from these Countries that they will neither create a new BRICS Currency, nor back any other Currency to replace the mighty U.S. Dollar or, they will face 100% Tariffs, and should expect to say goodbye to selling into the wonderful U.S. Economy. They can go find another "sucker!" There is no chance that the BRICS will replace the U.S. Dollar in International Trade, and any Country that tries should wave goodbye to America.

5:27 AM · Dec 1, 2024 · **106.6M** Views

SOURCE: INCRED RESEARCH, TWITTER

If China were to diversify its central bank reserves to the same level as India's (~10% of overall reserves), gold prices could very well touch US$5,000 per ounce

China's overall central bank assets amount to US$3.4tr. If it were to diversify 10% of its reserves into gold, the country needs to purchase gold worth US$160bn. At current prices, this translates to approximately 1,860t of gold—nearly 40% of the total annual global production. Even if this buying is spread over four-to-six years, it would increase annual gold demand by 7-8%, potentially driving gold prices to unprecedented levels.

It's worth noting that unlike the early 2000s, when the Bank of England was a significant seller of gold (offloading around 300t over five years, keeping prices tied to US$300/oz and eventually causing a crash), sustained Chinese and Indian buying is likely to result in a continuous rise in gold prices.

Traditional demand drivers of gold are firmly in place

Inflation, rising incomes in India driving jewellery demand, and exchange traded funds or ETFs joining the bandwagon to capitalize on rising gold prices are all firmly in place as key demand drivers of gold. As is the case with all commodities, the belief that demand will increase often leads to higher inflow into gold ETFs and investment channels, which, in turn, drives actual demand and further elevates prices.

ETFs are becoming a big source of gold demand

Gold ETFs are investment funds traded on stock exchanges which are designed to track the price of gold. They allow investors to gain exposure to gold without physically owning it.

Underlying asset:

A gold ETF is backed by physical gold held by a custodian, usually in the form of standard gold bars. Each unit of a gold ETF represents a specific amount of gold, such as 1gm or 0.01gm. Investors buy units of the ETF, which represent ownership of the underlying gold. These units are traded on stock exchanges like shares.

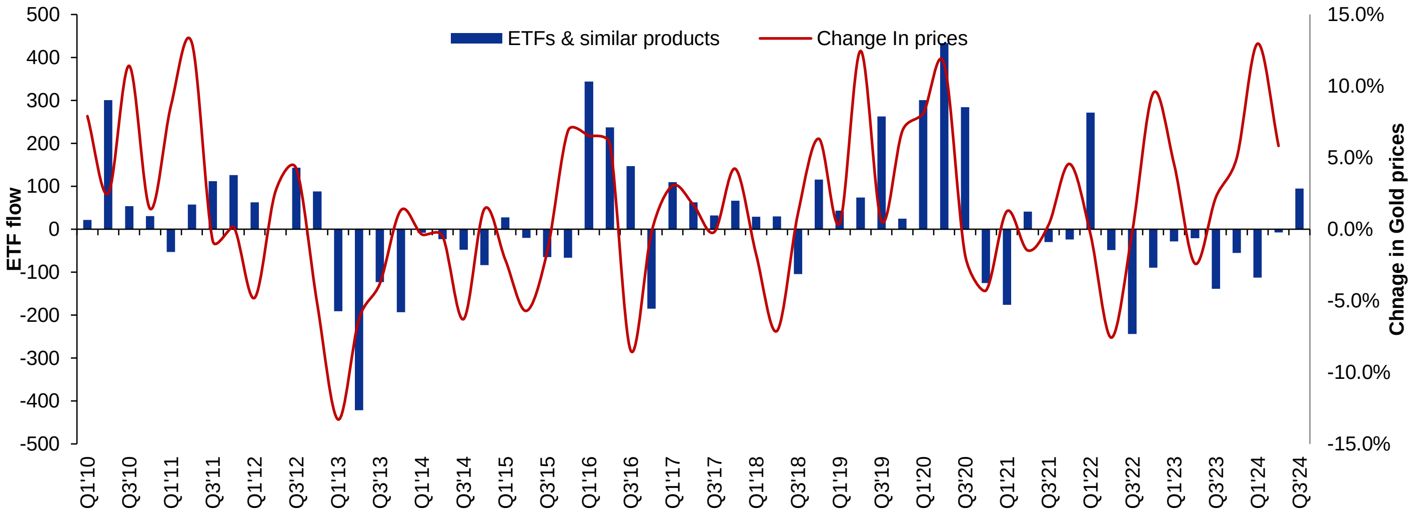
Fund manager:

A professional fund manager oversees the ETF, ensuring that the underlying gold is stored securely and that the fund accurately tracks gold prices.

How gold ETFs work?

- **Buying units:**
  Investors purchase units of the gold ETF through a brokerage account. The price of each unit is closely linked to the current market price of gold.
- **Trading on exchanges:**
  Like stocks, gold ETF units can be bought or sold on exchanges during trading hours at market prices.
- **Tracking gold prices:**
  The ETF tracks the performance of gold prices. However, minor discrepancies may occur due to management fees or market dynamics.
- **Physical gold backing:**
  The ETF provider ensures that an equivalent amount of physical gold is held in reserves for every unit issued.
- **Divisibility:**
  Investors can purchase gold in smaller, affordable units rather than buying whole gold bars or coins.

Figure 13: Price fall leads to ETF redemption and vice versa

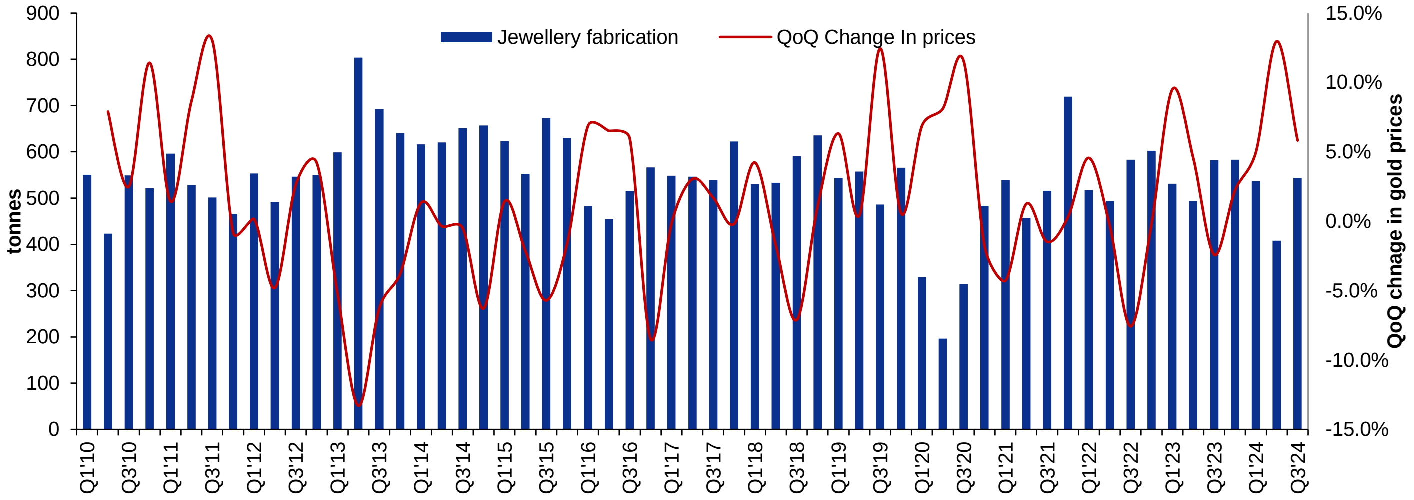


SOURCE: COMPANY REPORTS, INCRED RESEARCH

Traditional sources of demand in the form of jewellery remain strong as ever

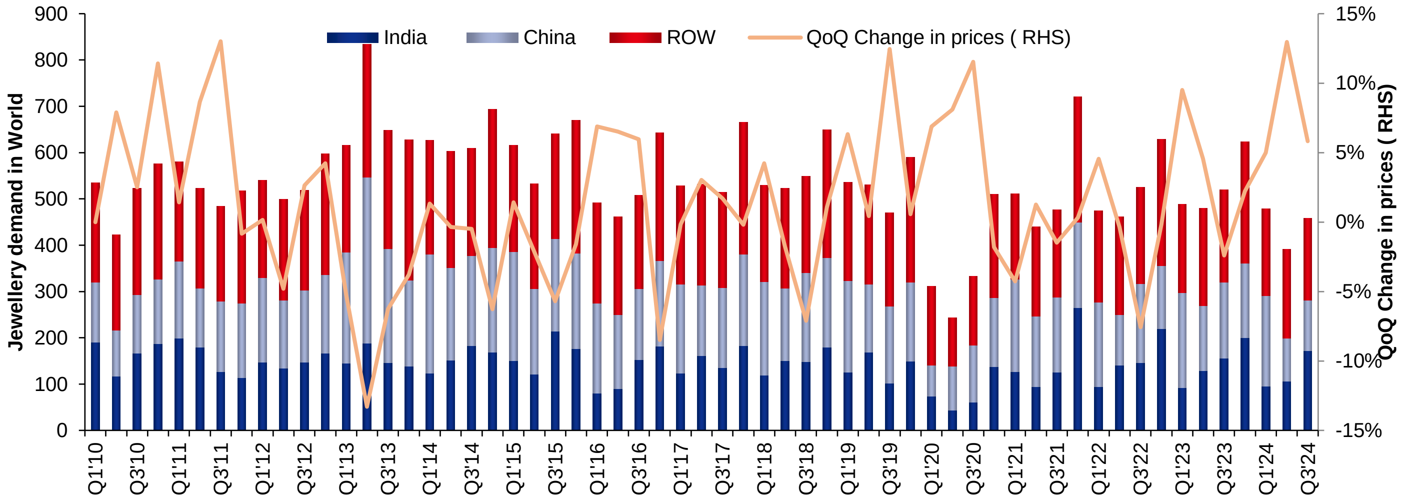
India is the largest centre for gold jewellery demand. Unlike ETF investors, the average Indian woman is a much smarter investor and consumer of gold. Whenever gold prices dip, jewellery demand tends to surge. However, it's important to note that this demand is more influenced by near-term price changes. There is a firmly held belief in Indian households that gold prices will always rise in the long term, making any price dip the ideal opportunity to buy the commodity.

Figure 14: India is the largest centre for gold jewellery demand; unlike ETF investors, the average Indian woman is a much smarter investor and consumer of gold; whenever gold prices dip, jewellery demand tends to surge and vice versa



SOURCE: INCRED RESEARCH, COMPANY REPORTS

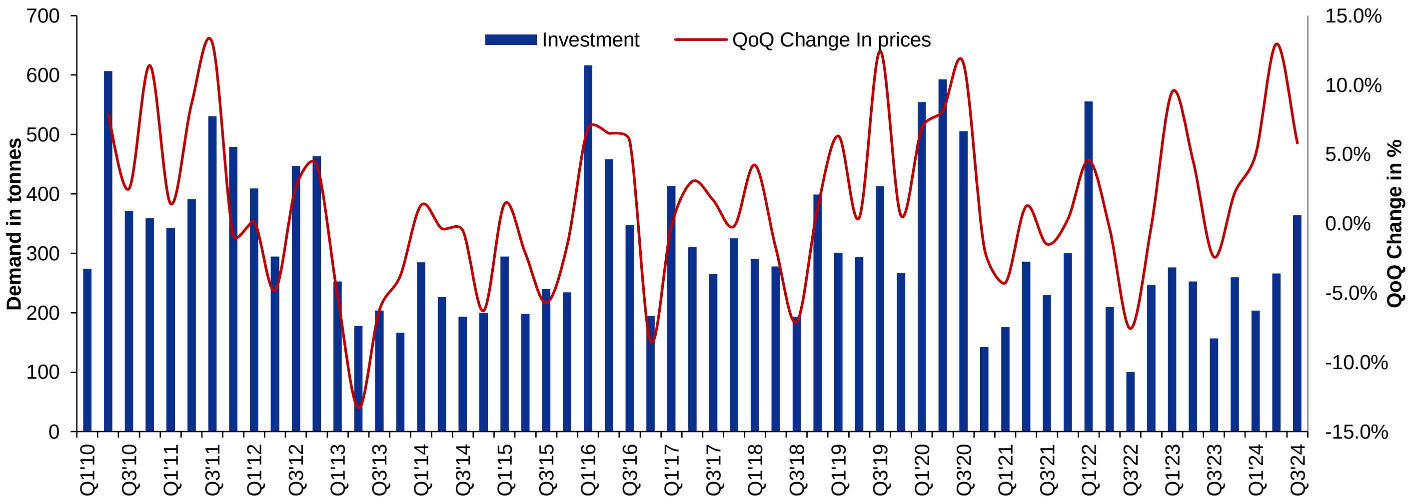
Figure 15: India and China are the primary drivers of global jewellery demand; households in these countries tend to purchase gold in a completely countercyclical manner, often increasing their buying during periods of price dip or economic uncertainty, reinforcing their cultural and financial faith in gold as a long-term asset



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Investment demand is also rising and will remain strong in an uncertain world

Figure 16: Unlike household buying of gold, investment demand is directly linked to gold prices



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Mine production increase has always remained a challenge in the case of gold, and we don't see it easing; we forecast a shortage-driven price rise

Figure 17: Global demand-supply balance and probable increase in central bank buying means that recycled gold supply needs to increase, and that's possible only when prices rise significantly

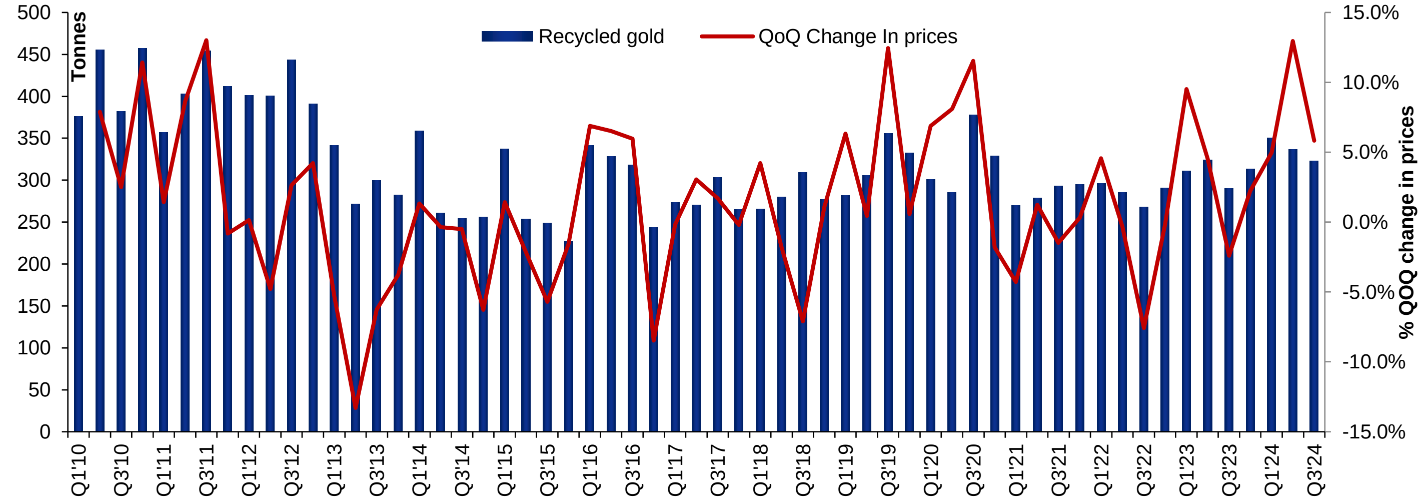
All data in tonne or t	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23	CY24F	CY25F	CY26F	CY27F	CY28F	CY29F
Supply															
Mine production	3,362.4	3,516.2	3,580.6	3,658.4	3,605.0	3,484.0	3,573.2	3,633.0	3,643.9	3,716.8	3,791.1	3,867.0	3,944.3	4,023.2	4,103.6
Net producer hedging	12.9	37.6	-25.5	-11.6	6.2	-36.6	-5.4	-12.3	67.4	0.0	0.0	0.0	0.0	0.0	0.0
Recycled gold	1,067.1	1,232.1	1,112.4	1,131.7	1,275.7	1,293.1	1,136.2	1,140.1	1,238.7	1,687.2	1,777.0	1,615.3	1,702.3	1,787.7	1,871.7
Total supply	**4,442.3**	**4,786.0**	**4,667.4**	**4,778.5**	**4,886.9**	**4,740.5**	**4,704.0**	**4,760.8**	**4,950.0**	**5,404.0**	**5,568.1**	**5,482.3**	**5,646.5**	**5,810.9**	**5,975.3**
Demand															
Jewellery fabrication	2,479.2	2,018.8	2,257.5	2,290.0	2,152.1	1,324.0	2,231.1	2,195.9	2,190.5	2,201.4	2,212.4	2,223.5	2,234.6	2,245.8	2,257.0
Technology	338.0	329.4	339.4	341.7	332.7	309.0	337.2	314.8	305.2	308.2	311.3	314.4	317.5	320.7	323.9
Investment	967.4	1,616.2	1,315.0	1,160.9	1,274.7	1,794.9	991.5	1,112.5	945.3	995.3	1,045.3	1,095.3	1,145.3	1,195.3	1,245.3
Central banks & other inst.	579.6	394.9	378.6	656.2	605.4	254.9	450.1	1,081.9	1,049.1	1,149.1	1,249.1	1,349.1	1,449.1	1,549.1	1,649.1
Gold demand	**4,364.2**	**4,359.2**	**4,290.4**	**4,448.9**	**4,364.8**	**3,682.8**	**4,009.9**	**4,705.1**	**4,490.0**	**4,904.0**	**5,068.1**	**4,982.3**	**5,146.5**	**5,310.9**	**5,475.3**
OTC and other	78.2	426.8	377.0	329.6	522.0	1,057.7	694.0	55.7	460.0	500.0	500.0	500.0	500.0	500.0	500.0
Total demand	**4,442.3**	**4,786.0**	**4,667.4**	**4,778.5**	**4,886.9**	**4,740.5**	**4,704.0**	**4,760.8**	**4,950.0**	**5,404.0**	**5,568.1**	**5,482.3**	**5,646.5**	**5,810.9**	**5,975.3**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The gold demand-supply balance suggests that existing gold inventory needs to be liquidated to meet rising demand

This scenario underscores the necessity of a significant price rise to incentivize such liquidation and restore equilibrium in the market.

Figure 18: Inventory liquidation depends on price change - the higher the price change, the higher is the liquidation and hence, to restore the balance, gold prices need to rise in the coming quarters



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.