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Commodities• Gold Market

India’s Gold Market at a Turning Point

Why Falling Prices, Rising ETF Inflows and Festive Demand Matter for Investors

Gold has entered an unusual phase in India. International prices fell sharply in September 2026, yet domestic prices declined by less because the rupee weakened. At the same time, gold exchange-traded funds continued attracting investors, while jewellers prepared for the festive and wedding season. These developments illustrate why gold cannot be understood through its international price alone.

According to the World Gold Council's October 20 market update, international gold ended September at approximately $4,176 per troy ounce, down 8.5% during the month. Domestic gold declined 4.8% to around ₹147,613 per 10 grams. The difference is central to the Indian investment case: a falling global gold price does not necessarily produce an equivalent fall for Indian buyers.

The more important question is whether the recent correction represents a temporary repricing caused by higher bond yields or the beginning of a sustained change in investor demand. The answer matters to households, jewellery businesses, gold ETFs, importers and portfolio managers.

What's Happening?

The World Gold Council reported that gold prices were broadly rangebound during the first half of October following September's sharp pullback. By mid-October, international prices were roughly unchanged from their September closing level, while domestic prices were approximately 1% lower, partly reflecting a recovery in the rupee.

Several important developments are taking place simultaneously:

- International gold declined 8.5% in September, while domestic gold declined 4.8%.
- Gold ETF net inflows reached a seven-month high in September and remained positive through mid-October.
- Digital gold purchases rose to approximately 1.7 tonnes in September.
- Domestic gold discounts narrowed substantially as festive demand strengthened.
- Listed jewellery retailers reported strong revenue growth during the July–September quarter.

These indicators do not all measure the same activity. ETF inflows reflect financial investment; jewellery sales reflect consumption and cultural demand; digital gold combines savings and investment behaviour. Their simultaneous strength suggests that different types of buyers are responding differently to the same price environment.

Why Did Gold Prices Fall ?

Higher US Bond Yields Increase the Opportunity Cost

Gold does not pay interest, coupons or dividends. When US government-bond yields rise, investors can earn more from interest-bearing assets while taking comparatively limited credit risk. The opportunity cost of holding a non-yielding asset therefore increases.

For example, consider an investor allocating $100,000. A Treasury yielding 5% offers $5,000 in annual coupon income before price changes and taxes. Gold offers no contractual income; its return depends on price appreciation. Gold may still protect against currency instability or financial stress, but the hurdle for holding it becomes higher when bond yields rise.

The September decline was associated with higher US Treasury yields, a stronger dollar and reduced futures positioning, according to the World Gold Council. These forces can reverse, but their influence is significant because they affect global portfolio allocation rather than only jewellery demand.

A Stronger Dollar Can Pressure International Gold

Gold is generally quoted in US dollars. When the dollar strengthens, gold becomes more expensive in other currencies unless its dollar price adjusts. A stronger dollar can therefore reduce purchasing power for non-US buyers and weigh on investment demand. However, this relationship is not mechanical: geopolitical risks, central-bank purchases and financial-market stress can sometimes outweigh currency effects.

Why Indian Gold Prices Fell Less Than Global Prices ?

Indian gold prices depend on both international gold prices and the rupee-dollar exchange rate, alongside duties, taxes, premiums and local market conditions. This creates a currency cushion when the rupee depreciates.

Consider a simplified example. Assume the international gold price falls 8%, but the rupee weakens 4% against the dollar. The rupee-denominated gold price changes approximately by (0.92 × 1.04 - 1) = -4.32%, before local charges. The international investor sees an 8% decline, but the Indian investor sees only about a 4.3% decline.

The actual September comparison—an 8.5% international decline versus a 4.8% domestic decline—illustrates the same mechanism. It does not imply that gold is immune to losses in India. If international gold and the rupee both fall in value against the dollar at different speeds, the net domestic return can vary considerably.

Why Festive Demand Is Returning ?

India's gold demand has a strong seasonal component. Weddings and festivals support jewellery purchases even when investment sentiment is uncertain. After September's correction, industry participants reported improved store footfall, retailer restocking and healthier order flows.

The World Gold Council observed that domestic gold discounts relative to import parity narrowed from an average of approximately $66 per ounce in September to around $8 per ounce by October 16. A narrowing discount can indicate firmer demand relative to available domestic supply, although recycling, inventories and unofficial flows also influence the premium-discount balance.

High prices nevertheless change consumer behaviour. Households may purchase lighter jewellery, exchange old ornaments, reduce gram weight or shift towards investment products. Therefore, stronger rupee sales at a jeweller do not automatically mean a proportionate increase in the quantity of gold sold.

What Jewellery Companies Are Telling Investors ?

The World Gold Council reported that listed jewellery retailers recorded approximately 20–30% year-on-year revenue growth in the July–September quarter. Same-store sales growth of around 20% indicated that performance was not driven solely by new store openings. However, higher average selling prices contributed meaningfully to the growth.

This distinction is essential. A jeweller whose revenue rises 25% while the average gold selling price rises 20% may have achieved only about 4.2% growth in the underlying quantity-and-mix measure, calculated as 1.25 ÷ 1.20 − 1. Actual jewellery economics are more complex because making charges, product mix and studded jewellery vary.

Investors should distinguish revenue growth, volume growth, same-store sales growth and gross margins. High gold prices can increase working-capital requirements because retailers must finance more expensive inventory. Companies with efficient inventory turnover, prudent hedging and strong brands may be better positioned than businesses relying heavily on price-sensitive demand.

Gold ETFs: Why Investment Demand Is Different ?

Gold ETFs allow investors to obtain market-linked gold exposure through exchange-traded units without personally storing jewellery or bullion. They also separate the investment decision from making charges and the resale friction associated with physical ornaments.

The World Gold Council reported that Indian gold ETF net inflows reached a seven-month high in September and remained positive through mid-October. That is notable because investors continued allocating money even after a sizeable correction in international prices. It may reflect portfolio diversification, buying after a decline or expectations of continued macroeconomic uncertainty; inflows alone cannot establish which motive dominates.

An ETF investor must still consider tracking difference, expense ratio, liquidity, bid-ask spreads and taxation under applicable rules. A gold ETF is not a fixed-return instrument. Its value can decline materially when gold prices fall, and the rupee may either amplify or offset the international move.

Digital Gold: Convenience Does Not Remove Product Risk

The World Gold Council estimated September digital-gold purchases at approximately ₹25.9 billion, or about $271 million, with volumes around 1.7 tonnes. Purchase value increased roughly 4% from August and 83% from a year earlier, while year-to-date volume reached 16.3 tonnes compared with 9.2 tonnes in the corresponding period of 2025.

Digital gold appeals to savers because it can be purchased in small denominations. However, it should not automatically be treated as equivalent to a regulated gold ETF. Investors need to understand the legal claim on underlying gold, custody arrangements, redemption terms, spreads, fees and the applicable regulatory protections before investing.

Which Sectors Could Benefit ?

Organised Jewellery Retailers

Large branded retailers may benefit from consumers shifting towards trusted stores, transparent pricing, exchange schemes and standardised quality. The strongest operators can combine store expansion with higher same-store sales. Nevertheless, high inventory values and weak gram-volume growth remain important risks.

Gold ETF and Asset-Management Businesses

Persistent inflows can increase assets under management and potentially fee income, although gold ETF expense ratios are generally modest. The benefit depends on net subscriptions, market movements and competitive pricing. Higher AUM does not necessarily translate into equally high profitability.

Gold Recycling and Exchange Services

When prices are elevated, households may exchange existing jewellery rather than buy entirely new quantities. Retailers and refiners capable of valuing, collecting and recycling old gold efficiently may see higher activity. Recycling can also reduce the need for incremental imports at the margin.

Which Areas Face Pressure ?

Price-Sensitive Jewellery Demand

Higher prices can reduce the grams purchased per transaction, particularly among middle-income households. Consumers may substitute lighter products, defer purchases or reduce discretionary spending. Revenue growth driven by price inflation can therefore conceal weaker physical demand.

Importers and Working-Capital-Intensive Businesses

Gold imported in dollars becomes more expensive when the rupee weakens. Businesses carrying large inventories or funding purchases through short-term borrowing may face greater financing costs and valuation risk. Hedging and inventory discipline are important differentiators.

Investors Buying After a Rally

Gold's reputation as a safe haven does not guarantee positive returns over short periods. A portfolio built around recent price momentum may suffer if US real yields rise, the dollar strengthens or risk premiums decline. The September correction is a reminder that even defensive assets can be volatile.

What Does This Mean for Investors ?

Gold can play a useful role as a diversifier because its return drivers differ from those of domestic equities and bonds. But diversification is not the same as guaranteed protection. Gold can fall alongside equities during periods of liquidity stress, and its correlation with other assets changes over time.

An investor should first decide what gold is meant to accomplish: protection against rupee weakness, diversification during financial stress, long-term purchasing-power preservation or a tactical view on interest rates. The suitable instrument and allocation will differ accordingly.

A simple illustration shows why allocation size matters. If a portfolio contains 10% gold and gold declines 15% while all other holdings are unchanged, the direct portfolio impact is approximately -1.5 percentage points. At a 30% allocation, the same move reduces portfolio value by about 4.5 percentage points. Gold exposure therefore requires risk budgeting like any other asset.

For investors evaluating gold-linked assets, important factors include:

- Changes in US real interest rates and the dollar.
- Rupee-dollar movements and their effect on domestic returns.
- Gold ETF net flows, costs and tracking differences.
- Jewellery sales volumes versus value growth.
- Inventory financing, hedging and working-capital efficiency.
- Portfolio concentration and the investor’s time horizon.

What Should Investors Watch Next ?

The next few months will test whether the recovery in Indian gold demand is sustained. Festive and wedding purchases may support jewellery sales, but elevated prices can continue to restrict volume growth. ETF inflows will indicate whether investors are adding strategic exposure or merely buying a temporary dip.

Global factors remain equally important. The direction of US yields, the dollar and geopolitical risk will influence international gold prices. For Indian investors, the rupee adds a second layer of uncertainty. A stronger rupee could reduce domestic gold returns even if the international price remains stable.

What's Next ?

India's gold market is not experiencing a simple recovery or a simple correction. September's international price decline, the smaller fall in domestic prices, rising ETF demand and improving festive purchases reveal a market driven by several different forces at once.

The key lesson is that gold's role depends on the buyer. A household purchasing wedding jewellery, a saver buying digital gold, a portfolio manager allocating to an ETF and a jeweller managing inventory are all exposed to the same metal but face different economics and risks.

For investors, the important question is not whether gold returns immediately to its previous high. It is whether the allocation improves overall portfolio resilience at a reasonable cost and whether the investor can tolerate periods of sharp price declines. For jewellery companies, the key is whether strong rupee revenue converts into sustainable volumes, margins and cash flows.

Gold remains relevant in Indian portfolios, but the recent correction demonstrates why valuation, currency exposure and investment structure matter just as much as its traditional safe-haven reputation.

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