

Gold ETF Flows to Jump to Record in India on Rising Demand, Funds Predict

By Madelene Pearson - Jan 12, 2011

Assets held in gold-backed exchange traded funds in [India](#) may surge to a record for a second year as demand gains, investor awareness spreads and more products are introduced, according to managers in the largest bullion user.

“It’s definitely possible to double,” said Rajan Mehta, executive director at Benchmark Asset Management Co., which runs the nation’s biggest gold exchange-traded fund, or ETF. Money managed by Indian gold funds climbed to a record 35.2 billion rupees (\$780 million) last year from 13.5 billion rupees in 2009, according to Association of [Mutual Funds](#) in India data.

The forecast expansion in Indian gold holdings adds to signs there’s growing emerging-market demand for precious-metal investments, which may help to support prices. Lion Fund Management Co., setting up [China](#)’s first gold fund to be invested in overseas exchange-traded products, said yesterday it raised \$483 million. Spot gold traded at a record last month.

“In 2011, we see a phenomenal growth in the ETF segment,” Ajay Mitra, managing director for India and the Middle East for the World Gold Council, said today in an interview from Dubai.

Gold for immediate delivery gained 0.3 percent to \$1,385.40 an ounce at 1:10 p.m. in Mumbai. The metal, which climbed to an all-time high of \$1,431.25 last month, gained for a 10th year in 2010 as investors sought protection from weaker currencies, the European debt crisis and resurgent inflation.

Concerns about rising inflation in India may help drive demand for gold, Mitra said. India may report this week that its benchmark wholesale-

price index climbed from a one-year low in December due to rising food prices.

'High on Agenda'

Inflation "is going to be high on the agenda, which to my mind is good for driving the proposition of saving up in gold for the future," Mitra said.

Exchange-traded funds have become popular worldwide since their creation in 1993 as they widened investors' access to different types of assets. Gold ETFs allow investors to trade bullion without taking physical delivery of it.

India introduced gold-backed funds in 2007, with 10 now in operation. Demand for bullion as an investment in India, the world's second-most populous nation, surged 73 percent in the 12 months to Sept. 30, according to [World Gold Council](#) data.

Growing awareness of gold ETFs and new funds starting will help to drive investment, said Swati Kulkarni, from Mumbai-based UTI Asset Management Co., the manager of India's third-largest gold-backed fund. "The trend is likely to persist," she said.

Inflows

"The growth in the assets under management in gold would be higher than the gold returns per se because there will be more people looking at this," said Kulkarni. Flows into gold ETFs were 1.1 billion rupees in December, with investors adding money to them in 11 months out of 12 in 2010, data from the mutual funds' association [website](#) shows.

Assets held by gold funds have risen to 16 metric tons from 12 tons, Mitra said.

In China, there's "a real boom in retail investment in physical gold," according to comments last month from [Tom Kendall](#), an analyst at Credit Suisse Group AG in [London](#) and the most accurate gold forecaster for 2010. Gold may climb as high as \$1,630 this year as investors seek a

haven and as Chinese demand rises, Kendall forecast.

Holdings in the SPDR Gold Trust, the biggest ETF backed by bullion, fell 1.21 tons to 1,271.47 tons as of Jan. 11, according to figures on the company's website.

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