India again seen as likely buyer of more IMF gold

With India's gold holdings still lagging other major economies, it is said to be closely watching the gold market for other buying opportunities

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India's central bank, which has increased its gold holdings to diversify its reserves, looks set to be a buyer again when the International Monetary Fund begins selling 191.3 tonnes of the precious metal amid volatility in major currencies.

The uncertain outlook for two of the world's major reserve currencies -- the dollar and euro -- provides a spur for central banks, including India's, to buy gold. India's gold holdings lag those of major economies despite a big purchase in October.

"India is no stranger to gold. They are gearing up for growth and want to recalibrate their reserves," said Mark Pervan, senior commodities analyst at ANZ.

"They can't lift their gold holdings from domestic output, unlike China. And they have shown an appetite to buy in the past."

Reserve Bank of India officials declined to comment on their gold plans but some said the central bank considered gold to be a safe investment strategy.

"We are closely looking at the gold market. We buy at market prices," an RBI official said.

The RBI adjusts its reserve portfolio on a regular basis, officials at the central bank said. None of the officials would speak on the record, given the sensitivity of the matter.

"The RBI doesn't want to take a credit risk as there are concerns on the dollar and the euro now," said a senior RBI official who is not directly involved in the bank's gold purchases.

"So, despite the interest being very low, gold is a safe bet," the official said, referring to the low returns the bank receives through custodians for lending out some its gold.

Another RBI official noted that since India's foreign exchange reserves have not risen as the bank has not been intervening heavily in the forex market, the proportion of gold has held steady after its last purchase of the precious metal in October.

CHINA UNLIKELY TO BUY

The IMF said last Wednesday it would soon begin selling the gold in the open market in a phased manner to avoid disrupting the market.

The sale is part of an IMF programme announced last year to sell a total of 403.3 tonnes of gold, or about one-eighth of its total stock.

China, with about $1.6 trillion in reserves, is a producer of gold and is unlikely to buy the gold being offered by the IMF, the official China Daily reported on Wednesday.

"It is not feasible for China to buy the IMF bullion, as any purchase or even intent to do so would trigger market speculation and volatility," said an unidentified official from the China Gold Association.

The RBI was the biggest buyer in the IMF gold sale last year, snapping up 200 tonnes over two weeks and boosting its holdings to 10th largest among central banks.

"In the second tranche also it is possible they may bid for it. This is an opportunity for diversification of reserves," said A. Prasanna, economist at ICICI Securities Primary Dealership.

The IMF's announcement that it would sell more gold, which was expected, comes amid renewed doubts about the pace of global economic recovery and sovereign debt problems faced by a number of European nations, most notably Greece.

GOLD CONSOLIDATING

Gold prices climbed steadily late last year to touch an all-time high of $1,226.10 an ounce on Dec. 3 after the RBI announced in November it had purchased 200 tonnes of IMF gold.

Prices have steadied just above $1,000 recently, edging up to $1,107.30 an ounce on Wednesday, after falling 1 percent the previous day.

The RBI's gold holdings rose to $18.1 billion, or 6.46 percent, of total reserves on Feb. 12, weekly data show. Its holdings on Oct. 30 were $10.8 billion or 3.80 percent, which did not include the IMF gold buy.

The average for central bank gold holdings as a share of overall reserves is 24.5 percent, ANZ's Pervan said. Excluding Europe and United States, the average is 12 percent, he said.

Greece's debt woes have weighed on the euro while a slow recovery in the United States has kept the dollar out of favour.

The euro touched a nine-month low on Feb. 12, and has shed 10 percent since the end of 2009 amid worries over whether Greece could service its debt mounted. The euro remained subdued on Wednesday, holding just above $1.35.

(Additional reporting by Nick Trevethan in Singapore and Ruchira Singh in New Delhi; Editing by Tony Munroe and Ramthan Hussain)