Investigating Gold Investment as an Inflationary Hedge

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Abstract
Gold and Indian Culture have been sharing an age old association. India is one of the top two consumers of gold. Gold is the most popular investment avenue because of its ability to provide liquidity. The average monthly price however has grown by 1588% over the whole period 1979-June 2017. In this paper, we intend to investigate gold as an investment to hedge against inflation. The sample period to study the relationship between gold and inflation is 2011-2017 (March). To analyse long run equilibrium between gold and inflation (CPI-consumer price index), Johansen’s cointegration approach has been used. The short and long run causality between gold and inflation has been studied using VECM and Wald test. The results of cointegration indicate that gold and CPI series are cointegrated and bear long run equilibrium. VECM and Wald test results indicate that there is only long run causality between CPI and gold prices. However, in short run these variables don’t show any causality. Thus, we infer that gold investment can be used as hedge against Inflation. The findings of this research have got direct implications for retail investors, portfolio managers, treasury and fund managers, government, commercial traders etc.

Keywords: Gold, Inflation, hedge, Investment, Cointegration, Causality

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