Sovereign Gold Bond 2020-21 – Series VIII

09-Nov-2020

Prologue:

Government of India, in consultation with the Reserve Bank of India, has decided to issue Sovereign Gold Bonds (SGB), 2020-21 Series VIII. Applications for the bonds will be accepted between **November 09, 2020 and November 13, 2020**. The Certificate of Bond(s) will be issued on November 18, 2020.

The issue price of the Sovereign Gold Bond for this Series has been fixed at **Rs. 5,127 (Rupees five thousand one hundred and twenty seven only) per gram** of gold for those who subscribe online and pay through digital mode and **Rs. 5,177 (Rupees five thousand one hundred and seventy seven only) per gram** for others.

Forthcoming Issues in FY 20-21:

Sr.No.	Tranche	Date of Subscription	Date of Issuance
1	2020-21 Series IX	Dec 28, 2020 - Jan 01, 2021	Jan 05, 2021
2	2020-21 Series X	Jan 11, 2021 - Jan 15, 2021	Jan 19, 2021
3	2020-21 Series XI	Feb 01, 2021 - Feb 05, 2021	Feb 09, 2021
4	2020-21 Series XII	Mar 01, 2021 - Mar 05, 2021	Mar 09, 2021

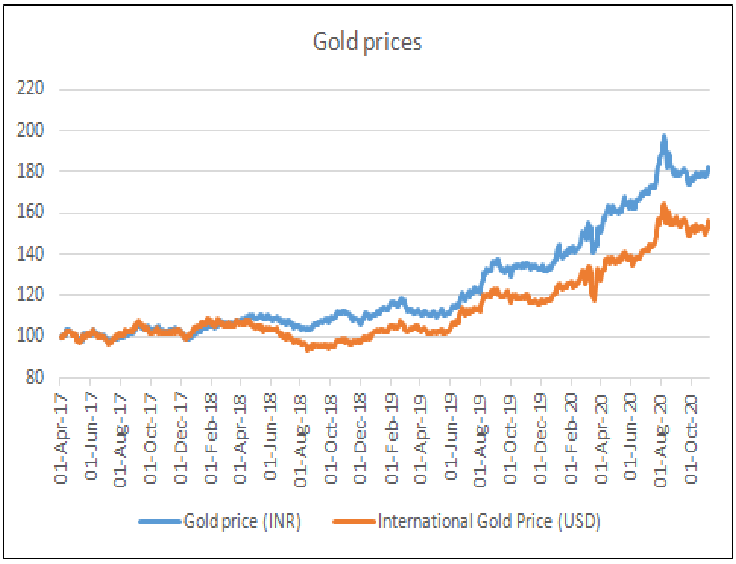
Details of all the tranche issues in FY20 & FY21:

Series	Month	Issue price/gram	No. of units (grams)
FY20 - I	Jun 2019	Rs. 3146 - 3196	4,59,789
FY20 - II	Jul 2019	Rs. 3393 – 3443	5,35,947
FY20 - III	Aug 2019	Rs. 3449 – 3499	10,24,837
FY20 - IV	Sept 2019	Rs. 3840 - 3890	6,27,892
FY20 - V	Oct 2019	Rs. 3738 – 3788	4,55,776
FY20 - VI	Oct 2019	Rs. 3785 - 3835	6,93,210
FY20 - VII	Dec 2019	Rs. 3745 - 3795	6,48,304
FY20 - VIII	Jan 2020	Rs. 3966 – 4016	5,22,119
FY20 - IX	Feb 2020	Rs. 4020 - 4070	4,05,957
FY20 - X	Mar 2020	Rs. 4210 – 4260	7,57,338
FY21 - I	Apr 2020	Rs. 4589 – 4639	17,72,874
FY21 - II	May 2020	Rs. 4540 – 4590	25,44,294
FY21 - III	June 2020	Rs. 4627 – 4677	23,88,328
FY21 - IV	July 2020	Rs. 4802 - 4852	41,30,820
FY21 - V	Aug 2020	Rs. 5284 - 5334	63,49,781
FY21 - VI	Sept 2020	Rs. 5067 - 5117	31,90,133
FY21 - VII	Oct 2020	Rs. 5001- 5051	18,59,518

Offering gold bonds at a discount of Rs 50/gm for online/digital payment: The nominal value of the bond has been fixed on the basis of simple average of closing price for gold of 999 purity of the last three business days of the week preceding the subscription period (Nov 04 – Nov 06), published by the India Bullion and Jewellers Association Ltd (IBJA), which works out to be **Rs 5,177 per gram**. Government of India, in consultation with the Reserve Bank of India, has decided to offer a discount of Rs 50 per gram on the nominal value of the Sovereign Gold Bond those who subscribe online and pay through digital mode.

Gold Outlook:

Gold price remained range bound in October as it moved back and forth around $1900 per ounce level; however, gold rallied in the previous week as Joe Biden inched closer to the victory in presidential election which boosted the hopes for larger fiscal stimulus and dented the US dollar. Gold has delivered returns of 28.75% in US dollar terms (YTD till Nov 06, 2020) which reflected market's underlying anxiety. Gold prices were mainly reacting to the movement in U.S. dollar and U.S. Treasury yield, prompted by odd developments on the next round of relief stimulus in the U.S. and market anxiety leading up to the most consequential U.S. presidential elections in the history.



Gold prices may continue to trade in a range with positive bias as mounting concerns over the global economic recession, heightened geo-political tensions, historically low and negative interest rates, fresh lockdown across Europe amid second wave of infections as well as rising inflationary expectations amidst unprecedented levels of stimulus measures launched by central banks around the globe may continue to support supported the gold prices.

Global equity markets recovered meaningfully as governments and central banks announced stimulus packages to support the economy. Though equity markets have rebounded sharply from their lows, the high level of uncertainty surrounding the COVID-19 pandemic and the ultra-low interest rate environment supported strong flight-to-quality flows. Gold benefited from investors' need to reduce risk.

Global central bankers have cut interest rates aggressively and rates are likely to remain at lower levels until the fractures in the economy are healed. A ballooning Fed balance sheet should help push real interest rate expectations deeper into negative territory. The near-term decline in Gold prices is likely to be limited, given persistent lower real yields; thereby reducing the opportunity cost for holding non-interest bearing bullion asset. The combination of rising public debt (to support relief and fiscal stimulus measures) and low/negative interest rates observed in major economies make a case for holding on to the safe haven metal. On Nov 05, the US Fed Policy framework continued to maintain ultra loose policy which could lead to a rise in demand for Gold as investors seek a perceived store of value in the likelihood of higher inflation and real rates that are negative. Investment in gold should be more of an asset allocation and diversification strategy (5-10% of portfolio) due to its low correlation with other asset classes and safety in volatile times.

SGBs are to be treated more as an asset diversification strategy rather than to earn superior returns. Investors need to appreciate that gold prices are prone to fluctuations based on macro events globally and USDINR rates and **doing a SIP in every tranche of gold can be considered by investors who are either underinvested in gold or have regular fresh monies for allocation among various asset classes or need to accumulate gold for wedding or other auspicious occasions.**

Key benefits:

- The issue price that is fixed at Rs. 50 less than the nominal value for per gram for digital applications is beneficial for investors. This helps investors to get slightly higher returns than that of the gold price in the spot market.
- Sovereign Gold Bonds deliver two streams of returns. One in the form of regular interest of (2.50% p.a.) on invested capital every six months and the other in the form of capital gains at the time of redemption in case the price at the time of redemption is higher.
- SGBs can be used as collateral for loans. This bond is as liquid as physical gold and could be exchanged for money, albeit on loan basis, at the time of financial need.
- The bonds will be available both in demat and paper form.
- In Union budget 2016, Finance Minister exempted capital gains tax on redemption on such bonds (under normal case, LTCG tax is levied 20% with indexation on gain). Indexation benefits will be provided to long term capital gains arising to any person on transfer of bond.

Basic Details:

- Interest Rate: The Sovereign Gold Bonds offer an interest rate of 2.50% per annum payable semi-annually. Interest will be credited semi-annually to the bank account of the investor.
- Eligible Investors: The Bonds will be restricted for sale to resident Indian entities including Resident Individuals, HUFs, Trusts, Universities, Charitable Institutions and minors applying (through their guardian).
- Minimum application criteria: 1 unit (i.e. 1 gram of gold).
- Maximum application limit: Not be more than 4kg for individuals/HUFs and 20kgs for trusts per fiscal year (April-March).
- Tenor: The tenor of the Bond will be for a period of 8 years with exit option after the 5th year of the date of issue and such repayments shall be made on the next interest payment dates.
- Redemption price: The sovereign gold bonds will be redeemed for cash at the end of the investment tenure. Redemption will take place at the prevailing gold price (based on simple average of closing price of gold of 999 purity of previous 3 business days from the date of repayment, published by the IBJA), giving the investor the value of the bond plus capital appreciation/depreciation from increase/fall in gold price.
- Premature redemption: From 5th year, investors can approach the concerned bank/Post Office/agent thirty days before the coupon payment date. Request for premature redemption can only be entertained if the investor approaches the concerned bank/post office at least one day before the coupon payment date.
- Liquidity: Liquidity is available from secondary markets as these bonds are mandated to be listed on BSE and NSE. However, the liquidity of the past issues are quite low and restricted only to few tranches. Most of the past series of SGBs are trading at a discount to the gold prices due to lack of liquidity and depth in the market.
- Nomination facility: Yes. Nomination and its cancellation shall be made in Form 'D' and Form 'E', respectively.
- Loan against Bonds: Available. The loan-to-value (LTV) ratio is to be set equal to ordinary gold loan mandated by the Reserve Bank from time to time.
- Transfer: The Bonds shall be transferable by execution of an Instrument of transfer as in Form 'F'.
- Taxation: Interest on the Bonds shall be taxable as per the provisions of the Income-tax Act, 1961. Capital gains tax treatment (except in case of redemption) will be the same as that for physical gold (20% tax after indexation benefit if held for three years). TDS is not applicable on the bond interest/redemption proceeds.
  The redemption of these sovereign gold bonds by an individual will be exempt from capital gains tax. Long-term capital gains to any person on transfer of sovereign gold bonds shall be eligible for indexation benefits.

Issue Details of SGBs:

Issue Year	Issue price/gram	No. of units (grams)
2015 – 16	Rs. 2600 – 2916	49,03,285
2016 – 17	Rs. 2893 – 3150	1,13,87,765
2017 – 18	Rs. 2780 – 2987	65,24,691
2018 – 19	Rs. 3114 – 3326	20,30,873
2019 – 20	Rs. 3196 – 4260	61,31,169
2020 – 21 so far	Rs. 4590 – 5334	2,22,35,748

What are the benefits of buying these bonds in comparison to physical gold?

- Here, investors buy gold in paper; hence there is no need of checking the quality of gold as that is a major hurdle when purchasing gold from jewellers.
- Further no storage/locker/insurance charges are payable in case of SGB.
- Apart from this, the investor has to face counterparty risk while selling their physical holding of the yellow metal which is not the case here.

Comparison between Sovereign Gold Bonds and Gold ETF:

Sovereign Gold Bonds score over Gold ETF on many grounds.

- The Sovereign Gold Bonds pays an interest of 2.50% per annum (though taxable), an added benefit to the investors which is not available with Gold ETF. However, both options are providing capital appreciation/depreciation.
- Sovereign Gold Bonds hold Sovereign guarantee hence there is no default risk is involved. The credit risk in Gold ETF is also very minimal.
- Investors have to bear the transaction charges if they want to trade in Gold ETF while there is no such charge involved with Sovereign Gold Bonds if they don't exit through the exchanges.
- Further, Gold ETF deducts some charges in the name of TER (Total Expenses Ratio) from the total assets. This expense ratio ranges from 0.35% - 1.17% per annum of the total assets.
- On the liquidity front, the Gold ETF scores over Sovereign Gold Bonds. Investors can enter/exit from Gold ETF during any working day of the stock exchanges. Liquidity will not be the constraint (though impact cost may be a hurdle) for the Gold ETF. On the other hand, the encashment/redemption of the Sovereign Gold bond is allowed after fifth year from the date of issue on coupon payment dates. However, these bonds will be tradable on Exchanges, if held in demat form (but, liquidity may be limited).
- No capital gains tax is payable if the sovereign gold bonds are held till maturity, while ETFs held for more than three years attract capital gains tax (with indexation benefits).

Comparison among Sovereign Gold Bonds, Physical Gold and Gold ETF:

Particulars	Sovereign Gold Bonds	Physical Gold	Gold ETF
Returns/ Earnings	More than actual return on physical gold	Lower than real return on gold due to making charges	Less than actual return on physical gold, since annual expense deducted
Sovereign guarantee	Yes	No	No
Interest on the investment	Yes	No	No (No dividend option provided on Gold ETF)
Capital Appreciation/depreciation	Yes	Yes	Yes
Annual fund management fees	No	No	Yes
Brokers charge on buying	No	No	Yes
Exit / redemption option	Only from 5th year	Any time exit	Any time exit
Tradability	Yes	Yes	Yes
Liquidity	Limited	Highly liquid	Highly liquid
Storage/Insurance charges	No	Yes	No
Quality check required	No	Yes	No

Is capital gain tax payable on gains in SGB?

In case the SGBs are encashed by way of redemption by an individual from the RBI, no capital gains tax is payable.

In case the SGBs are sold before the maturity date on the exchanges, then this exemption is not available. In such a case, the Capital Gains will be levied (Long term or Short term based on whether it is held for 3 years or more or less than 3 Years) at the applicable rates i.e. short term (at applicable rates to the investor) and long term (20% after indexation).

Disclosure:

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

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