Precious metals have been a keen area of interest for the investors, media and researchers in India. They are the most traded category of commodity on Indian Exchanges. The volumes have been record high for silver, followed by gold. However, an extensive review of existing literature indicates that the research in case of precious metals has been concentrated on gold prices and there is a wide gap in case of study of volatility in silver prices.

The present study is an attempt to bridge this gap and understand the impact of some macroeconomic factors on silver prices in India using some advanced econometric tools. The study finds that investment strategies for silver should not remain consistent. The scope of prices of metal is exhibiting break with passage of time. The metal is more sensitive to international events and stock markets.

I. Introduction

Precious metals and gemstones have been an integral part of the Indian civilization since its recorded history. Silver – The White Metal is one of the most popular metals amongst the Indians for an age which has been put to various uses like ornaments and utensils, trade, etc. It also stands as the foundation for several monetary systems worldwide. The value of silver as precious metal is widely acknowledged second after gold. The word ‘silver’ appears in Anglo-Saxon in various spellings, such as seolfor and siolfor. A similar form is seen throughout the Germanic languages (compare Old High German silabar and silbir). The chemical symbol ‘Ag’ is from the Latin word for ‘silver’, argentums (compare Greek ἀργύρος, propós árgyros), from the Indo-European root arg-, meaning ‘white’ or ‘shining’.

HARSH PUROHIT*
NIDHI CHOUDHARY**

Submitted August 2014; Accepted August 2015
were relatively stable in early 2012. However, the prices began to fall once again in latter part on 2012. This is attributed to the uncertainty over the policies of Federal Bank, United States as “the policies would have impacted commodities denominated in dollars” (Oberoi, 2013). This led to fall in investment demand of silver. However, the prices again took a U turn with a rise in investment demand as the Government of India, increased the import duty on gold. This made the investors look for another precious metal to park their investments. This led to rise in prices once again. The silver spot and future market has bidirectional causality over the passage of time irrespective of the structural break in the data. The relationship between the two markets is efficient and leaves no scope for any arbitrage opportunity irrespective of changing economic conditions and performance of the metal prices in India. The relationship of silver spot and future prices with sensex has been consistent over the passage of time. The flow of volatility has been bi directional between the variables. The spot and future prices of silver have shared bidirectional causality with sensex. The spot market of silver shares efficient and bidirectional causality with US Dollar exchange rate in a normal phase (part I and part II of data). However, this relationship is disturbed in case of high volatility in silver prices (Part III, Part IV and Part V). The relationship of silver prices in India with International Silver prices is bidirectional and efficient.

V. Managerial Implications
The investment strategies for silver should not remain consistent. The slope of the prices of metal is exhibiting a break with the passage of time. The metal is more sensitive to international events. Hence, the investors need to reconsider their investment approach towards silver whenever there is any major international event. Further, the metal is impacted by the movements in the stock markets. The investment strategies need to be active to yield maximum returns from the silver trading.

References
Acworth, W., (2013), "FIA Annual Volume Survey", Futures Industry Annual Volume Survey
AQM Copper Inc., (2012), "Copper Fundamentals" AQM Copper Inc.

© Indian Institute of Finance


© Indian Institute of Finance


Indian Commodity Exchange, (2012), "Silver Leaflet", Indian Commodity Exchange


India PR wire, (2013). "India Imports of Copper and Copper Articles rise to US$ 298.31 M in May-2013", June 25, 2013


© Indian Institute of Finance

Reuters, (2014), "India overtakes Japan as world's No.3 crude importer" Reuters, January 30, 2014


U.S. Department of State, "The American Dollar and the World Economy", U.S. Department of State, USA.

