

Investors with the Golden-i: Preference in Gold-i Investment

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ARTICLE INFO

Article history:

Received 2 April 2020

Accepted 13 May 2020

Published 31 May 2020

Keywords:

keyword1 Inflation

keyword2 Income growth

keyword3 Interest rate

keyword4 Covid-19

keyword5 Shariah compliance

ABSTRACT

The gold price has risen recently after the United States implemented a drastic monetary action by reducing the interest rate to almost zero to cushion the effect of Covid-19 pandemic on the economy. However, what has triggered the gold price could be beyond Covid-19. Therefore, this study examines the factors influencing customers' preference in gold investment (Gold-i). Applying a purposive sampling technique; 100 out of 110 questionnaires were usable and further analysed using SPSS v. 22. Two variables; inflation and income growth are significant while the interest rate is not significant with Gold-i preference. Since interest rate relates to the strength of US Dollar, central bank reserves and investment demand, it could be postulated that during the study in 2019, interest rate and the gold price had risen in tandem. This research further enriches knowledge and contributes to the advancement of research in gold investment, hence enabling researchers, bankers, investors, trade policymakers to understand further the investment in Gold-i during economic crises, in particular the current recession triggered by the Covid-19 pandemic.

1. Introduction

Nowadays, investment in gold is popular and preferred assets among Asia's rich as gold is becoming a favoured choice for customers to cut the risk in the stock market. Tun Mahathir reiterated in Kuala Lumpur Summit 2019 that gold has an absolute value for all countries in the world and it has also been viewed as a commodity providing a financial and material haven for people globally (Zainuddin, 2019). More so, it has been commonly used in transactions with its value teaches investors to manage their own risk and preserve capital more efficiently (Baur & Lucey, 2010; Sindhu, 2013).

Gold supply has grown by 6% in the second quarter of 2019 with a record of 882.6t for gold mine production and a 9% jump in recycling to 314.6t (GOLDHUB, 2019). According to Baur and McDermott (2010), when the market is facing extreme negative shock or crisis, gold has proven to be an alternative to decrease the losses and being a robust, haven. Other than that, gold has been an investment choice for investors among precious metals that are available in the market (Low, Yao & Faff, 2016). Gold can react positively to adverse market shocks and act as an inflation hedge and during the financial crisis; it gains the acceptance and rolling prices. Recently, the gold price has risen upon United States monetary action in

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countering the Covid-19 economic effects (World Gold Council, n.d.). This has affected the performance of stock markets positively and lessened the impulse of gold selling for potential losses elsewhere. Even when the stock market plunges, the gold has historically improved the risk-adjusted returns in times of market stress.

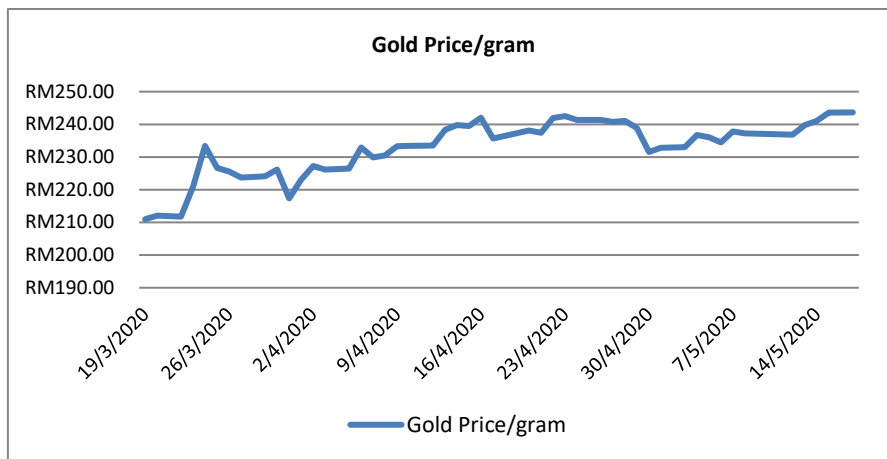


Fig. 1. Gold price when movement control order (MCO) started

Source: <https://www.bullion-rates.com/gold/MYR-history.htm>

Figure 1 displays the price chart of the gold price as soon as the government imposed the movement control order (MCO) on 18 March, 2020. The initial price/gram was RM210.98, increased to RM238.14 a month later, and the latest price as of 17 May, 2020 was RM243.65, the increment of RM27.16/gram and RM5.51/gram sequentially. It displays a spike increase in price during the earlier stage of MCO and gradually going through up and down before reaching above RM240 mark on 16 April, 2020. However, the price of gold slightly dropped by RM6.43/gram and RM7.36/gram right after 16 April and 29 April, 2020 consecutively as the supply of gold could not cater for excessive demand in a shorter period and suppliers have revised the price of gold (Shankar, 2020).

Based on gold price performance, supply and demand, the study is to examine factors influencing customers to invest in Gold-i. The following sections discuss literature review on gold investment preference, what is Gold-i, and inflation, income growth and interest rates as factors of customer's preference in investing in Gold-i.

2. Literature Review

2.1 Gold Investment (Gold-i) Preference

Gold investment preference is an essential element for the customer to invest. As such, many factors may influence the customers to invest, as their preference is based on the decision and behaviour. Customer preference is based on the client's socioeconomic environment, customer actions towards investments such as perceptions for returns and risks as well as awareness or knowledge about investment. Thus, many consequences occur when the target is not achieved as it affects investment outcomes. Customer behaviour towards investment and found that the client's socioeconomic environment, customer actions towards investments, perceptions for returns and risks, as well as awareness or knowledge about such investment are influenced by the individual customer's behaviour (Kaur & Kaushik, 2016).

Given this, it is postulated that internal and external forces are the ones shaping customer behaviour (Zamri Ahmad, Ibrahim & Tuyon, 2017). A good example is the current Covid-19 crisis where customers or investors have mixed reactions of securing or losing them during the initial outbreak of the virus ("Gold Price," 2020). Besides, the experience can affect future decision making, thus indicating that the decision that would be made in the future is based on the past decision (Jullisson, E.A., Karlsson, N., Garling, 2010). Therefore, when there is a good outcome from any decision made, people will no doubt make decisions in the same way in a similar situation and avoiding from repeating the past mistakes (Sagi, A. & Friedland, 2007).

2.2 What is Gold-i?

For centuries, gold has been a source of wealth that is highly sought after, as it has always been stapled as a global currency, a commodity of an object of beauty and investment. Moreover, gold is one of the few items that can retain its economic value in recession and even depression. Besides that, it is a unique substance and something important to financial well-being.

Gold-i is a Shariah-compliant product that offers the opportunity to customers to participate in the metal market where the returns would be from the capital appreciation of initial purchase. The operational of the Shariah compliance covers the Akad (contract), customer payment, gold delivery/allocation and issuing of a gold certificate that is confirming the gold ownership to have occurred on a spot basis. The beneficial possession will be taken place immediately upon the issuance of a certificate. However, physical gold can be delivered later.

There are two categories of gold; (i) Physical and (ii) gold account. Customer can purchase Physical Gold from the bank and will receive Gold Certicard (certificate) upon every purchase transaction made. Likewise, the Gold account can be purchased over the counter, and internet banking and the transaction is based on Malaysia Ringgit. The indicative of selling and buying price will be quoted daily during office hours however the price offered by individual banks may not necessarily be similar to the gold price quoted by any other sources (World Gold Council, n.d.). Also, the profit gained will be generated from the price appreciation of gold purchased.

While the use of gold against the economy can be debated, the awareness of people on the economy can give a significant impact on the price of gold. There are several explanations why the gold price is uncertain: gold is widely recognised as a hedge against the decline in US dollars and inflation; in the global market, the devaluation of the dollar affects the price of gold; since the gold market price is quoted in US dollars. Nevertheless, gold is also used in small amounts as the most significant component of electronic devices. This contradicts its role as a currency and affects its price and availability. The supply of gold is fixed with comparatively small changes year after year, creating a gap between supply and demand (Peter J Montiel, Antonio Spilimbergo & Prachi Mishra, 2010).

2.3 Inflation

Gold is deemed as a protection against inflation. On the other hand, inflation means that there is a flat rate drop; throughout inflation, the paper currency tends to lose its value and purchasing power. Thus, inflation plays a primary role in how customers view gold. Consumer purchasing power and the decision of whether to buy today or save for tomorrow are controlled by global inflation and inflation expectation. Hence, high inflation can impact gold demand.

The previous study by Peter Kennedy (2002) found that gold and inflation have a strong positive correlation. Therefore, during the initial stage of inflation, the increase in gold price would be less than the increase in the price of other commodities. On the other hand, gold is much stable in its value. Accordingly, customers tend to spend on assets that provide value and proven to obtain money, such as gold and silver. Some studies have shown that gold prices possess inflation hedging properties. This is because gold has been regarded to bring a "haven" against inflation (Tufail & Batoool, 2013). In both long-run and short-run movements, gold price supports inflation, and there is a strong significant effect on the gold price to

Consumer Price Index (CPI), Gross Domestic Product (GDP), unemployment rate and Producer Price Index (PPI) (Christie–David, Chaudhry, & Koch, 2000; Ghosh, Levin, Macmillan, & Wrigh, 2001).

As observed in a previous study (Tufail & Batool, 2013), gold has earned attention via inflation that predicts nature and thus viewed as the leading indicator of inflation. Besides, Mahdavi and Zhou (1997) stressed that among the variables and determinants that have been tested in previous research, gold appears to be the primary indicator of inflation. Based on this, it appears that the price of gold (Consumer Price Index) and inflation relations are favourable. Additionally, Zarshad Ahmad and Rahim (2013) pointed out a simple linear regression on the relationship between the dollar exchange rate, gold price and petrol prices on inflation. The result on all of the variables proved the influence on inflation.

The gold has a positive relationship with inflation; an effective hedge against inflation. Hence when inflation increases, the gold price will increase. Therefore, the study postulates that inflation has a positive effect on Gold-i preference.

2.4 Income Growth

There is a high demand for bars, coins, jewellery and technological applications. Income growth promotes the purchase of these goods, as it controls the demand and supply for the products. In developing markets, it contributes to the most significant share of demand, thereby able to expand the economy, and serves as a higher level of wealth enhancement for gold. This is in line with a recent study, which found gold's role as a monetary asset (Kumar, 2017). A recent study by Zarshad Ahmad and Rahim (2013) found that the decrease or increase in income affects the savings of individuals, thereby forcing them to invest less or more. The economic performance of a country follows this.

Over the years, some studies have suggested that gold is favourable in portfolio diversification for markets in Europe and Japan, particularly when viewing the issue from the short-run and long-run perspectives. Also, some quarters believed that today's investors choose to invest in gold due to its high return (Sasidharan, 2015; Smith, 2002). Not to forget, customers generally buy gold as a method of diversifying risk.

However, the growth of any economy is based on healthy savings and appropriate capital allocation for the development activities of such nation. As such, the decrease in disposable income will no doubt contribute to savings as liquidity and security simulate a vital role in investment decisions. Besides, investors would be attracted in knowing how gold would be used as a haven against stocks during periods in which their real livelihood income could be at risk (Ghazali, Lean, & Baharia, 2016; Parimalakanthi & Kumar, 2015; World Gold Council, 2019). Therefore, the study postulates that income growth has a positive effect on Gold-i preference.

2.5 Interest Rate

The opportunity of saving money in cash relative to other assets has made the interest rate to be a central element in the assessment of financial assets. As such, investment opportunity costs in gold increases the interest rate. Nevertheless, the economic environment that is expanding can also support gold as practical use. Thus, world interest rates need to be considered (World Gold Council, 2013a). Global investment constituted over 25% of gold demand and pointed out that lower interest rate aroused the gold and jewellery market, yet lack of access to adequate financial services may not be encouraging to the emerging market. Thus, United States interest rates respond to the price of gold in investment channels. Similarly, gold price plays a significant part in defining gold-stock returns and has a strong positive relationship. Also, having gold stocks is a suggestion that investors improve on their leverage and the level of significance becomes apparent, especially for unhedged miners, which can profit higher gold spot prices (Robert Faff & Howard Chan, 1998).

Abdullah (2013) examined from Gibson's Paradox and found that the price of commodities and merchandise has a relationship with interest rate. Based on his observations on the United States and England patterns, it was concluded that gold standard, interest rates and other commodity prices are

positively correlated, as interest rates and gold price relationships are on the rise in the United States. Other researchers also confirmed that interest rate and gold price is positively correlated (Baber, Baber, & Thomas, 2013; Coleman, 2014). However, (Gerjovič, 2015) found that there is a negative relationship between the gold price and long-term interest rate. Thus, it was proven that when the interest rate in the United States increases, the gold price will decrease. Moreover, consumers prefer to invest in fixed deposit in order to get a significant return when gold price increases and interest rate decreases (Shukur, Zakaria, Affandi, Mansor, & Mahmood, 2015; Tan, 2017). With the current Covid-19 pandemic, Federal Reserve has slashed its benchmark interest rate to nearly zero in compensating the Covid-19 outbreak. Therefore, the study postulates that the interest rate hurts Gold-i preference.

3. Conceptual Framework

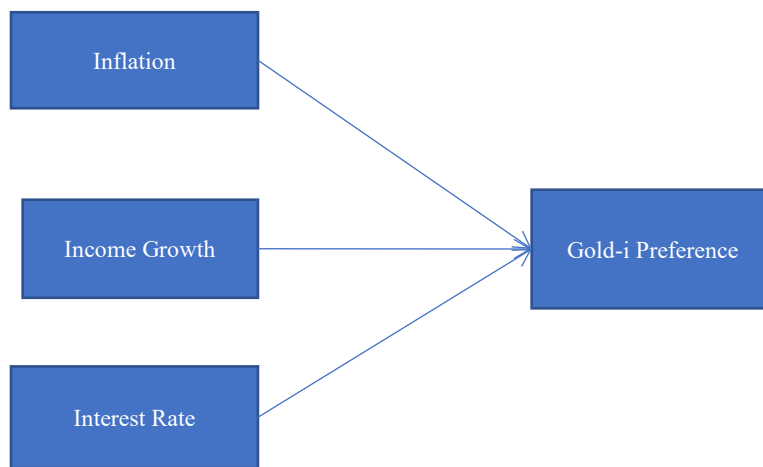


Fig. 2. The conceptual framework adopted from (World Gold Council, 2013b)

4. Research Methodology

Sample

The research cannot be achieved through probability sampling as no population list available or provided due to IFSA 2013 (replacing the Islamic Banking Act 1983). Therefore, non-probability sampling was acquired by obtaining the minimum power of 0.80, in order to obtain the least amount of sample size which is 77 with three predictors, assuming a medium effect size and 5% level (G Power). The resolution specifies that 80% is the minimum acceptable power for social sciences (Gefen, Rigdon, & Straub, 2011). Figure 2 shows dotted blue line is the sampling distribution; the solid red line is the population distribution, and a green line indicates the critical factor. Therefore, the sample size of 100 is reasonable and above a minimum of 77.

Convenient sampling technique which is purposive sampling, was used to collect data. Upon approaching the respondents, the research asked a screening question whether the potential respondent

invests in ZY Gold-i or not, if yes, research handed the questionnaire to the respondent, if no, research will proceed with other potential respondents. The researcher distributed 110 questionnaires to ZY Gold-i customers, and only 100 were usable for analysis (order to protect the institution and customers, the researcher has renamed the institution as ZY and product as ZY Gold-i). The researchers utilised Statistical Package for the Social Sciences (SPSS) version 22 to perform data analysis.

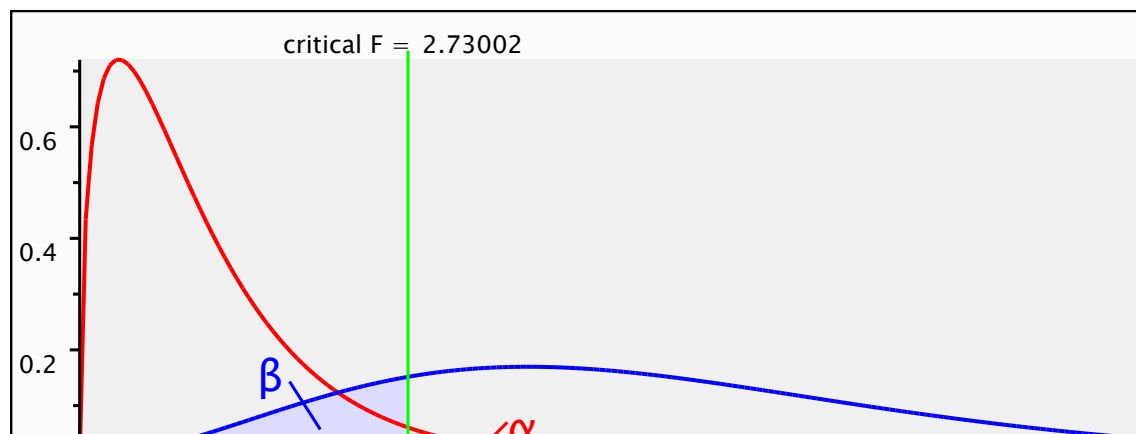


Fig. 3. G Power critical factor of 2.73002

F tests - Linear multiple regression: Fixed model, R^2 deviation from zero

Analysis:	A priori: Compute required sample size	
Input:	Effect size f^2	= 0.15
	α err prob	= 0.05
	Power ($1-\beta$ err prob)	= 0.80
	Number of predictors	= 3
Output:	Noncentrality parameter λ	= 11.5500000
	Critical F	= 2.7300187
	Numerator df	= 3
	Denominator df	= 73
	Total sample size	= 77
	Actual power	= 0.8017655

4.1 Hypotheses

The relationships between independent variables and the dependent variable are described below:

- H1: Inflation has a positive effect on Gold-i preference
- H2: Income growth has a positive effect on Gold-i preference
- H3: Interest rate has a negative effect on Gold-i preference

5. Results and Findings

Table 1 is the demographic of respondents of investing in ZY-i in Malaysia. It shows that out of 100 respondents; 46% are male, and 54% are female, respectively. The age range of respondents are 20% between 20-30, 43% between 31-40, 25% between 41-50 and 12% are 50 years old respectively. In terms

of occupation, the study shows that 94% of the respondents are employees of ZY institution, 3% are students, and 1% is staffs of government or state-run institutions, 2% are others. Apart from that, the higher job position is executive, consisting of 67%, 25% are managers while non-executives are 6 %, and others are 2%. It also shows the education level of respondents, in which 6% of the respondents have SPM and certificate, while 22% of them are from Diploma, 63% are bachelor degree, 8% are master degree and 1% is professional.

Table 1. Respondents Demographic Details

Items	Categories	Frequency	Percentage (%)
Gender	Male	46	46
	Female	54	54
Age	20-30	20	20
	31-40	43	43
	41-50	25	25
	Over 50	12	12
Occupation	Students	3	3
	Employees of the company	94	94
	Staffs of government or state-run institution	1	1
	Others	2	2
Job Position/title	Manager	25	25
	Executive	67	67
	Non - Executive	6	6
	Others	2	2
Education	SPM and certificate	6	6
	Diploma	22	22
	Bachelor degree	63	63
	Master degree	8	8
	Professional	1	1

Table 2. Respondents Investment Profiling

• Other types of investment	• Unit trust	• 63	• 63
•	• FOREX	• 2	• 2
•	• Shares	• 11	• 11
•	• Bitcoin	• 3	• 3
•	• None	• 21	• 21

In terms of other types of investment as shown in Table 2, majority of the respondents invest in a unit trust; making up 63%, followed by 11% in shares, 2% in FOREX, 3% in Bitcoin, and 21% of them do not invest in any other investments.

Table 3. Reliability Analysis

Variables	Cronbach's Alpha	Number of Items
Inflation	0.841	6
Income growth	0.869	5
Interest rate	0.789	5
Gold investment preference	0.750	4

According to (Hair, Black, Babin, & Anderson, 2010; Hair, Hult, Ringle, & Sarstedt, 2017), the acceptance level of Cronbach Alpha Index trash hold value is 0.708. Table 3 shows the result of reliability statistics of inflation, income growth, interest rate and Gold-i preference, which is 0.841, 0.869, 0.789 and 0.750, respectively. Therefore, the reliability of each variable is above 0.708 and shows adequate internal consistency.

Table 4. Mean and Standard Deviation

	Mean	Std. Deviation
IFT	4.2360	.60126
IGR	4.2200	.54717
IRT	4.3175	.53872
GIP	4.2700	.49791

Based on Table 4, it is observed that out of 100 respondents, most of the respondents agreed that interest rate is the highest mean value, which is 4.3175, and income growth is the lowest mean value, which is 4.2200. The results prove that the value of standard deviation is from 0.49791 to 0.60126, and the data is near to mean.

Table 5. Result of Multiple Regressions

No.	Hypothesis	Standardised beta	t-value	Sig.	Decision
1	Inflation -> IGP	.420	**5.039	.000	Supported
2	Income growth -> IGP	.252	**2.511	.014	Supported
3	Interest rate -> IGP	.154	1.500	.137	Not Supported
	F	23.241			
	R ²	.421			
	Adjusted R ²	.403			

Note: ** $p < .05$

Based on Table 5, it can be observed that the F equals to 23.241 and R^2 is 0.421, representing 42.1% of the gold investment preference, which can be explained by inflation, income growth and interest rate. Two variables; inflation ($t = 5.039$, $p < .05$) and income growth ($t = 2.511$, $p < .05$) are positive and significant in relation with Gold-i preference. Therefore, hypotheses H1 and H2 supported (Zarshad Ahmad & Rahim, 2013). However, interest rate ($t = 1.500$, $p > .05$) is not significant to Gold-i preference, which means that interest rate has a positive effect on Gold-i preference (Abdullah, 2013; Baber et al., 2013; Coleman, 2014). Hence H3 is not supported. Since interest rate relates to the strength of the US Dollar, central bank reserves and investment demand, it could be suggested that in 2019, interest rate and the gold price had risen in tandem.

6. Conclusion

The objective of this research is to examine the factors influencing customers' preference in gold investment (Gold-i). Two variables; inflation and income growth are supported while the interest rate is not supported to the preference in gold investment (Gold-i). Although the research was completed in 2019, it is crucial to highlight the current Covid-19 pandemic that affects Gold-i performance. Globally, investors observe gold as a haven during this pandemic turns crisis moment. It has negatively impacted the global economy, and central banks are taking precaution by increasing their gold assets as cause and effect of the current geopolitical, political, and economic condition. Since gold is liquid, countercyclical asset, as well as a long-term store of value, it may mitigate risks of safety, liquidity and return of the central banks (Peie et al., 2017). The implication of the crisis has caused the demand for gold to rise. Initially, when Covid-19 epidemic started, mixed investors' reactions has triggered the gold price to plunge as those who have purchased gold before could have accumulated their assets as countermeasures in the crisis moment, and those who are risk-averse started to purchase gold as their diversified asset portfolios. Thus, the current Covid-19 pandemic has an indirect effect on the price of Gold-i and the direct effect of external factors of inflation, income growth, and interest rate.

This research further enriches knowledge and contributes to the advancement of research in gold investment, hence enabling not just researchers but also bankers and investors to further understand and strategise the golden opportunity in Gold-i investment during economic crises, in particular the current recession triggered by the Covid-19 pandemic. It is also a wake-up call to trade policymakers to react to the economic impact and strengthen the Shariah-compliant ecosystem for both banking and finance in order to capture the customers' interest and confidence in Shariah-compliant based products (Khorshid, 2016).

7. Future Research

In order to further develop the research area of the factors influencing the customer to invest in Gold-i, it may need a more extended period (time series) to analyse the trends of gold price in 15 years and prepare a comparative study of the past gold price during recessions or other economic crisis conditions. Other secondary data such as government statistics, market research reports and trade publications could have been the supporting data to provide better understanding and view of the Gold-i performance and preference.

Besides, the variables for this research are only inflation, income growth and interest rate. Other external variables such as government monetary policy, political direction, geopolitical and economic condition, while internal factor such as security, risk and uncertainty might support and influence investors' investment preference in Gold-i.

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