

ANALYSIS OF THE INVESTMENT ACTIVITY IN THE GOLD MARKET OF UKRAINE

Statement of the problem. The question of a stable financial position has bothered everyone at all times. Nowadays, the problem of insecurity in the future has appeared particularly acute and encourages investors to search for the most reliable sources of investment to protect their savings from inflation processes. One of the most trusted and popular among the markets of investment tools is the gold market. It is characterized by protection against inflation and high reliability. Not surprisingly, a great number of countries around the world retain their cash reserves in gold, because none of the currency can be compared with the reliability of this precious metal. Therefore, it is topical to analyze the situation on the domestic market, to carry out a study of global trends in the field of investing in gold and to find opportunities to introduce international experience in the development of the gold market in Ukraine.

Analysis of the recent studies and publications. The place and the role of gold in the economy of the country have been studied and investigated by a lot of both foreign and domestic scholars. Among foreign representatives it is worth mentioning such scientists as Parke L., Gottelf F., Steel J., and Tomset M. Theoretical fundamentals of the gold market were paid attention to by Ukrainian economists Moroz A.M., Savluk M.L. and others. The features of the investment activity in the gold market and the problems and prospects of investing in gold were by studied Zhytniy P.Y. [3; 4]. Ozarina O.V. researched the innovations and the prospects of the gold market [5]. However, in the face of continuous dynamic development of the world economy, the state of the gold market in Ukraine and the ways of overcoming the chasm between the domestic market of precious metals and the developed countries of the world require constant research.

Setting the task. The purpose of the study is consideration of the features of the analysis of investment activity in the gold market of Ukraine. The following tasks are set to achieve the goal:

- analyze the dynamics of the price of gold;
- investigate the gold stock distribution in the world;
- explore the current state of the gold market in Ukraine;
- describe the features of investment activity in the gold market of Ukraine;
- suggest ways of solving the given problem.

The object of the study is the gold market of Ukraine. The subject is the investment activity in the gold market.

Summary of the basic material of investigations. In today's world, the problem of financial stability is becoming more and more important. The crises of currency and financial systems, the high level of inflation lead to devaluation of money, thereby depreciating the savings of businesses and individuals. In conditions of high variability of currencies and rising of prices, investments in national and foreign currencies are less and less effective and do not bring the desired income to the investor. Investments in real estate, the value of which is too high, are also quite risky. One of the most reliable ways to protect savings is investing in precious metals, because they are the universal equivalent of welfare.

According to the current legislation, precious metals are gold, silver, platinum and metals of the platinum group in any form and condition, brought (refined) to the highest samples in accordance with the world standards, in bars and powders that have certificates of quality, as well as coins made of precious metals [1].

In circulation in Ukraine there are such precious metals as gold, silver, platinum and palladium. Commercial banks holding the license can carry out commercial transactions with these metals. Investing in precious metals these days is a very popular activity. This is due to their high reliability and protection against inflation. The continuous growth of their prices indicates the stability of the precious metals (table 1) [7].

Table 1

**Prices for precious metals during the period from 01.01.2010 to 04.01.2014,
per ounce (UAH)**

Metal	Date					
	01.01.2010	01.01.2011	01.01.2012	01.01.2013	01.01.2014	01.04.2014
Gold	8723.613	11237.940	12284.318	13258.389	9665.535	14231.541
Silver	135.106	244.424	209.013	240.989	159.221	219.632
Platinum	11690.040	14012.592	10898.087	12229.290	10926.431	15639.298
Palladium	3122.135	6345.475	5081.513	5643.058	5643.058	8545.524

Compiled by the authors based on [7]

Analyzing the data about the value of precious metals, you will notice that there is no clear trend of their changes. The price of silver fluctuates all the time. In the period from 01.01.2012 to 01.04.2014, its value was less than the price set in 2011. A similar trend is seen in the price of platinum and palladium. However, these two metals are characterized by a rather low yield compared to gold and silver.

Gold is the most liquid among the precious metals. Silver is less valuable, because it is much cheaper in price and you have to buy it in kilograms, which is an uncomfortable way of investing money. Concerning platinum and palladium, these precious metals are not so popular. Thus, the study of investment activity in the gold market is worth special attention.

In times of economic downturns gold serves as the most reliable investment haven, where investors shift their savings. This is due to the fact that the crisis causes drastic impairment of other financial instruments. Under the stable development of the economy, the price of gold also gradually grows, but not as rapidly as in the period of crises. That is, we can say that gold, as a source of investment, is more attractive and profitable in the period of economic crises than in moments of the economy stabilization. Dynamics of prices for gold during the period of 01.01.2010 - 01.04.2014 are shown in figure 1.

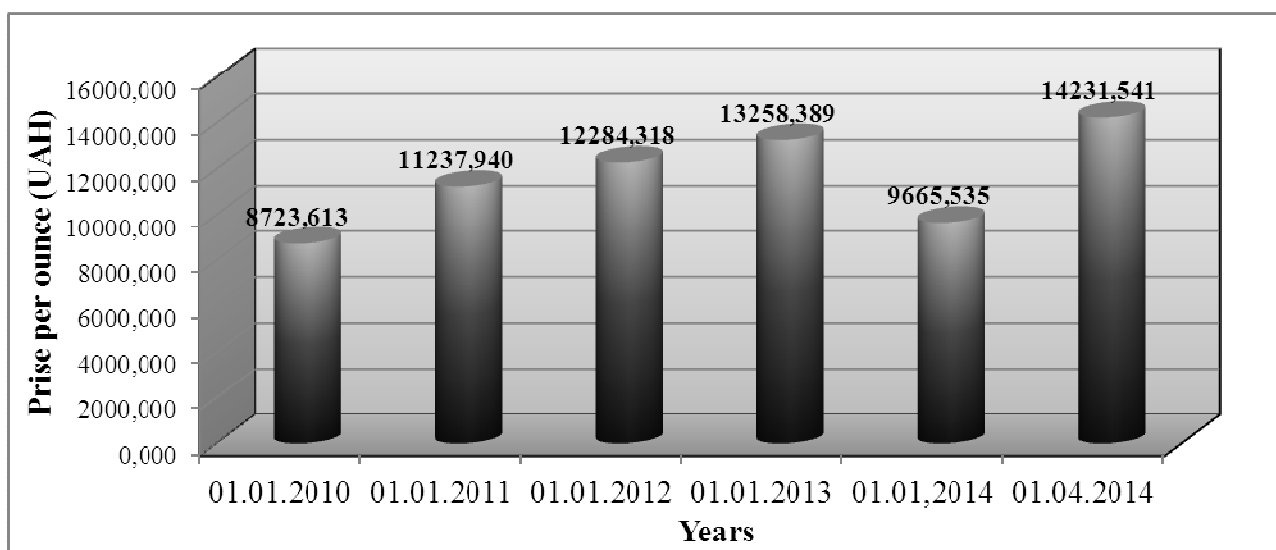


Fig. 1. Dynamics of prices for gold during the period of 01.01.2010 - 01.04.2014
Formed by the authors based on [7]

A relatively stable economic situation in Ukraine during 2010-2013 was characterized by a gradual rise in the gold price. However, in April, 2013 the crisis which took place on the World Gold market, led to a decrease in its price. Ukrainian minimum gold price was recorded on December 21, 2013 at the level of UAH 9551.635 per ounce. It was connected with the outbreak of both political and economic crises in Ukraine. Nevertheless, further deterioration of the economic situation in the country led to the skyrocketing price of gold, which at the beginning of April 2014 amounted to UAH 14231.541 per ounce.

The state of the gold market in Ukraine is closely related and even dependent on trends in the global financial market. Analyses of the domestic and foreign literature, as well as carried out researches, allow us to highlight the factors that affect the fluctuation of gold prices in the context of such dependence, namely:

- 1) the volumes of extraction of gold in the world and the demand for it;
- 2) the oil price (fluctuation in gold prices directly proportionally depends on fluctuations in oil prices);
- 3) the exchange rate (currency for purchase and sale transactions in gold are United States dollars, even if these operations are carried out using another currency, then its course is still set relative to the dollar);
- 4) the world financial indexes (decline in the stock price indicates a decrease in production, which causes investors' distrust to the stock market, and thereby an increase in the value of gold) [2, p. 22].

Currency and financial position of the country can be assessed by its gold reserve. Also, the amount of the gold reserve estimates the creditworthiness of the country. The peculiarity of the international gold market nowadays is the constant increase in the country's gold reserve. According to the World Gold Council, in March, 2014 the World Gold stock totalled 31876.8 tons of gold. Among the owners of the largest gold reserves in the world, are the United States, Germany and the IMF (figure 2).

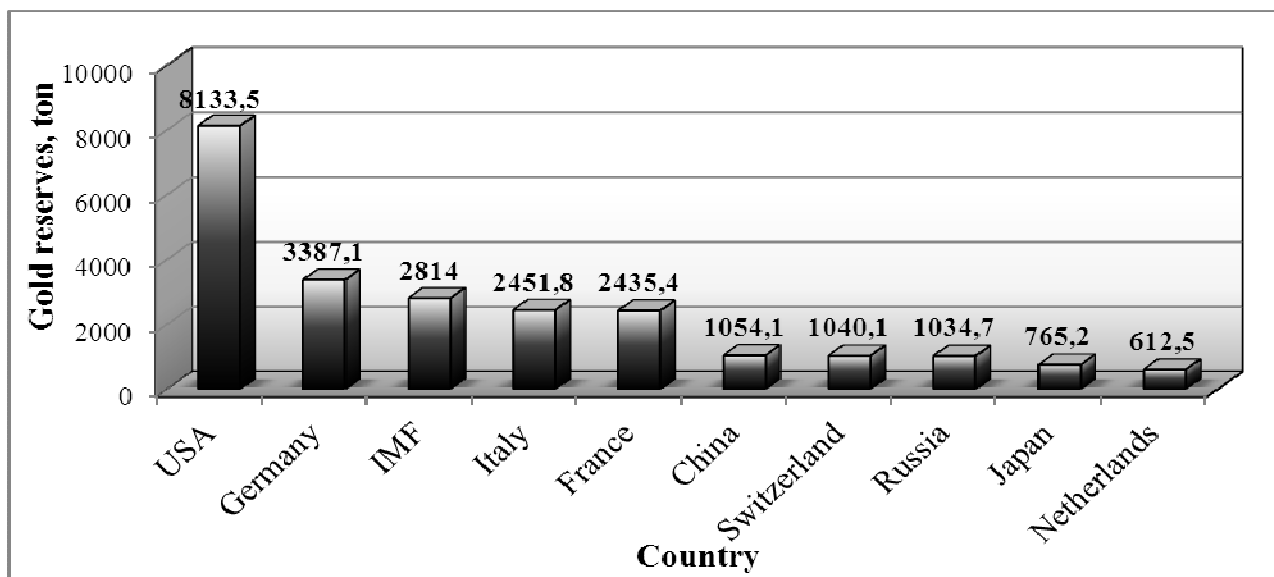


Fig. 2. The owners of the largest gold reserves in March, 2014
Formed by the authors based on World Gold Council [8]

Gold reserves are distributed unequally among countries. The biggest gold stock is owned by the United States of America (8133.5 tons), while other countries significantly lag behind it. Germany is in the second place, its gold stock is more than twice as small (3387.1 tons). The International Monetary Fund owns 2814 tons of gold. The gold stock of France and Italy is almost the same and amounts to approximately 2500 million tons in each country. These are followed by China, Switzerland and Russia with a stock of gold of about 1000 million tons each. But it is impossible to definitely judge on, so to speak, the supply of gold in these countries, based on the volume of their gold reserves, because they significantly differ from each other in size, population, etc.

It is worth pointing out that the owners of the largest gold reserves have approximately 75% of gold of the whole world. 10787.1 tons of gold are found within the European area. Ukraine take the 48th place in terms of gold reserve. It possesses 42.3 tons of gold, which to a great extent confirms the unstable financial condition of the country [8]. Ukraine, being on the way to economic growth, needs to adopt the experience of foreign countries to increase its gold reserve.

The cause of the small gold reserve (compared with other countries) is the low level of development of the gold market. On the territory of our country there is virtually no production of this precious metal. Ukraine is a country that imports gold. The development of the jewelry industry in the late 1990s has speeded up the import of gold by banks in Ukraine and the purchase of the metal by part of Ukrainian consumers. Every year the number of banks participating in operations with gold gradually increases, so the Ukrainian gold prices are getting closer to the world quotes. However, the volume of gold stocks remains far from the volumes of the developed countries [4, p. 93].

The subjects of the gold market in Ukraine can be divided into two levels: the first one is the State and the National Bank of Ukraine, the second one is commercial banks. The state directly regulates the gold market through various legal acts. The National Bank of Ukraine has the monopoly to control reserves, which include the gold. One of the changes in the assets that in the present conditions is being conducted by the National Bank of Ukraine is increasing the share of gold.

In turn, commercial banks may carry out transactions with gold holding an appropriate license from the National Bank, which certifies the right of commercial banks to conduct certain operations. In accordance with the law, authorized banks have the right to perform the following types of operations with banking metals on the interbank currency market:

- a) opening metal accounts in the National Bank of Ukraine, in the authorized banks and performing transactions involving them;
- b) opening and keeping metal accounts of other authorized banks, metal accounts of legal entities-residents (except subdivisions), private individuals;
- c) buying and selling for UAH;
- d) conversion of one bank metal into another;
- e) attract the deposits by clients (except for banks);
- f) attraction and placement of interbank deposits;
- g) providing and obtaining interbank credits;
- h) granting loans to residents - legal entities and individuals - entrepreneurs;
- i) giving and obtaining as collateral;
- j) safekeeping at the National Bank of Ukraine, in the authorized banks, in their own repository;

k) transportation [1].

In Ukraine commercial banks are quite highly interested in implementing transactions with gold, taking the opportunity to invest in gold, thus diversifying their risks. Another reason for the interest of the banks in carrying out transactions with gold is the possibility of selling the precious metal to the population for higher prices.

There are several ways of investing in gold: purchase of coins and bullions, deposits, etc. (figure 3).

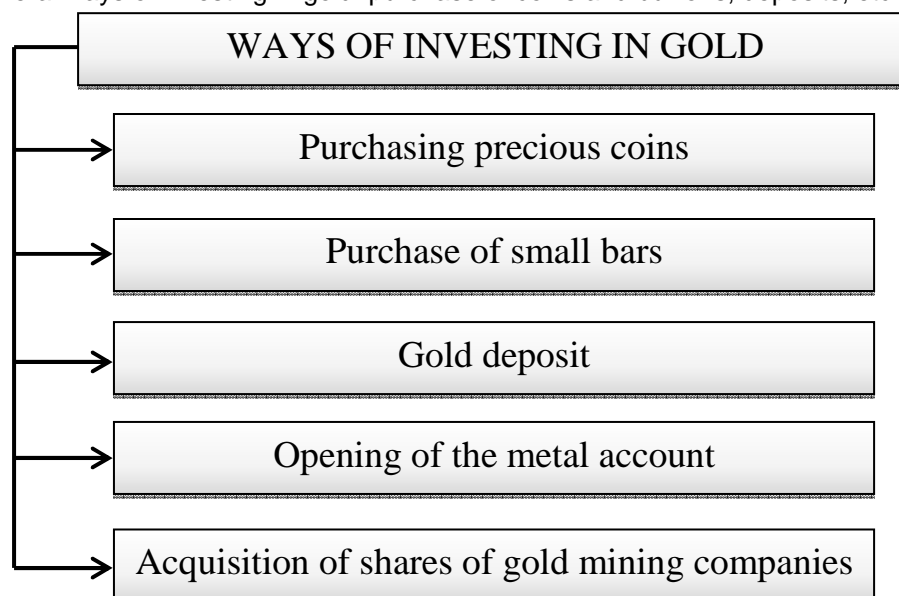


Fig. 3. Ways of investing in gold

Formed by the authors based on [3, c. 51; 4, c. 95-96; 5, c. 162]

Purchasing precious coins is the easiest way to invest in gold. Its advantage is the exemption from the value added tax, but, on the other hand, the value of coins includes the cost of its manufacture and chasing. Often such coins are produced in honor of a memorable date. In this case, we should consider the numismatic value, that is, a constant growth in the value of the coins, even in periods of falling prices for gold. Thus, this method is not the best suited for long-term investing in gold.

Purchase of small bars is a less attractive way of investing, because in this case the necessary condition is payment of VAT. However, the bigger the bar, the lower is the cost of 1 gram of gold in it. In case of the bankruptcy of the Bank, which keeps gold bullions, the insurance company does not reimburse the cost of a gold account. However, the advantage of this method of investing in gold is that gold bullion remains in the hands of the investor. Therefore, we can say that this method of investing in gold is a fairly reliable source of saving funds [3, p. 51].

Gold deposit is a deposit at a banking institution in the form of the precious metal - gold. This investment is accrued and the interest is the depositor's income. At the end of the deposit term the client can withdraw the bullion and the accrued interest (in the form of gold or in the national currency). However, the main income from deposits in gold is not interest rates, but rising prices for the yellow metal.

Opening of the metal account means that the investor is transforming the contribution into gold, but not getting the bar itself. Metal is credited to a special account in the banking institution, and when you need to sell it, the bank pays its holder the money in accordance with the established at the moment sale prices for 1 gram of gold. The positive side of this method of investing is no need for investor's costs to maintain gold [4, p. 95-96].

Acquisition of shares of gold mining companies means that the investor evaluates the profitability of the company, which produces gold, and chooses the most advantageous way for himself. The profitability of such actions is directly linked with the price of gold on the market: under the growth of prices on gold metal, gold-mining companies get bigger profits and, as a consequence, pay higher dividends, which increases the profitability of shares [5, p. 162].

Thus, the investor, choosing the way of investing money in gold, has, first of all, to prioritize the purpose of this investment: the priority for the investors can be either the desire to keep their savings from impairment, or a way of getting additional profit.

Global trends to continuous growth in demand for gold allow us to talk about the significant benefits of investing in gold metal over other types of investments, namely:

- this is one of the ways to protect savings from inflation processes;
- there is an opportunity to make a profit under a rising gold price;
- gold is characterized by high liquidity (it can be sold within 24 hours on any financial market);
- it provides reliability of the investment;

- the price of this precious metal keeps growing;
- gold, as the bank metal, has the highest standard;
- gold bullions and coins take up little space, which increases convenience of storing or using them;
- when buying gold metal you do not need to pay VAT (except for gold bullions);
- systematic calculations of the price of gold [2, p. 23-24].

Along with the advantages of gold investing there are considerable downsides, which are mainly caused by the inadequate level of development of the market of precious metals in Ukraine. Among the disadvantages we should mention:

- the uncertainty of the value of profits;
- the risk of partial loss of funds (in the case of the rapid drop in the price of gold)
- limited stocks of gold;
- low yield (if compared with the investments, for example, in securities)
- gold serves as a long-term investment tool, the efficiency of investments into the yellow metal for the short term is quite low [6, p. 636].

Conclusions and further research. Nowadays, operations with precious metals, gold in particular, are gaining popularity. In Ukraine, investing in gold occupies the third position among other types of investment. Thereby the gold market in Ukraine needs further development and improvement.

The advantages, disadvantages and nature of precious metals are justified in the article. We have selected gold as the most liquid and reliable way of investing.

The analysis of gold reserves among its largest owners suggests that the implementation experience of foreign countries is necessary for the development of the domestic gold market.

Based on the dynamics of gold price in recent years we have determined that despite the declining rate of gold in some periods, its value on the financial market shows a positive trend towards growth and reliability. Among the factors that affect the rate of change of precious metals we have selected such factors as amount of gold production in the world, price of oil and the dollar, global financial indices.

In Ukraine, there are several ways to invest in gold, each of which has its advantages and disadvantages. The advantages of investing in gold metal are high reliability and liquidity of investments, protection of savings from inflation, increasing price of gold and so on. The disadvantages include such facts as uncertainty of value of profits and long-term nature of investments, limited stocks of gold, etc.

Therefore, to meet the investment demands on the gold market of Ukraine, it is mandatory to constantly follow the world trends and to permanently improve all aspects of the implementation of this promising and reliable form of investing

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Chushak A.M., Zubrytska O.I. ANALYSIS OF THE INVESTMENT ACTIVITY IN THE GOLD MARKET OF UKRAINE

Purpose. The purpose of research is to examine and analyze the investment activity in the gold market of Ukraine.

Methodology of research. During the writing of the article we have used a method of economic and statistical analysis, which consists in the selection of the research object, dividing it into its constituent elements and analyzing each of them within a whole. In particular, we have analyzed the dynamics of the price of gold in recent years and the concentration of gold reserves in the world among its major owners. Also we have used the method of generalization and systematization of the literature by analyzing and isolating the ways to invest in gold.

Findings. We have justified the essence of precious metals and allocated gold among them, as the most liquid and the most reliable way of investing.

This article shows the dynamics of gold price in recent years and the factors that influence the rate of change of the precious metal. We have defined quantities of gold among its major owners. The modern

status of the gold market of Ukraine, its main actors and the tasks assigned to them are also characterized in the article. We have allocated the methods of investing in gold indicating the positive and negative aspects of each of them. At the end we have revealed the benefits of the investment activity in the gold market and the main disadvantages of investing in gold metal.

Originality. The economic profitability of investing in gold is justified in the article. Unlike the existing approaches this article considers current trends in the local and international gold markets and provides investment protection against inflation.

Practical value. Knowledge of investment activity in the gold market will help people to effectively use their savings and save money from inflation.

Key words: precious metals, gold, investment, gold reserves, gold market, bullion, coins, gold deposit, metal account.