

Impact of Gold Trading on Foreign Currency A Study on the Relationship Between Gold Prices, Investor Sentiment, and Exchange Rate Movements with Special Reference to the Indian Rupee and the US Dollar

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Abstract

Gold has occupied a unique position in the global financial system, functioning historically as a medium of exchange, a store of value, and, more recently, as a safe-haven asset that investors and central banks turn to during periods of economic uncertainty. Although the world has moved away from the gold standard to a system of fiat currencies, gold continues to exert a measurable influence on foreign exchange markets, particularly through its inverse relationship with the US dollar and its impact on India's trade deficit through gold imports.

This research paper examines the relationship between gold trading and foreign currency values, with specific attention to the Indian Rupee (INR) and the United States Dollar (USD). The study is grounded in both secondary research — drawing on the classical gold standard, the Bretton Woods system, and prior empirical literature — and primary research conducted through a structured questionnaire administered to 73 respondents.

Using descriptive statistics, Chi-Square tests of independence, and Kendall's tau-b correlation analysis, the study finds that a statistically significant majority of respondents perceive gold demand as a significant influence on currency value ($\chi^2 = 29.699$, $df = 2$, $p < 0.001$), and that perceptions of gold's linkage to India's trade and fiscal balance are significantly correlated with perceptions of gold as a superior store of value relative to fiat currency ($\tau = 0.270$, $p = 0.017$; $\tau = 0.254$, $p = 0.023$). These findings support the alternative hypotheses that gold is directly related to currency valuation and that investor sentiment toward gold as a safe-haven asset meaningfully affects foreign currency markets.

The study concludes that while gold no longer anchors currency values under a formal standard, its behavioural and macroeconomic linkages to the INR and USD remain strong, awareness among the investing public is broadly positive, and policymakers must continue to weigh the trade-off between gold's cultural and investment demand and its impact on India's foreign reserves.

Keywords: Gold trading, foreign currency, exchange rate, trade deficit, safe-haven asset, Indian Rupee, US Dollar, hedging

1.Introduction

1.1 Background of the Study

Gold has been prized for its inherent beauty and brilliance throughout history (World Gold Council, n.d.). It is understood across cultures as a symbol of divinity, enlightenment, and enduring worth. In Hinduism, gold is closely associated with the goddess Lakshmi, the embodiment of wealth, prosperity, and abundance. During festivals such as Gudi Padwa, the purchase of gold is considered highly auspicious, believed to invite prosperity and success in the year ahead. Beyond its cultural and religious significance, gold is widely regarded as an investment vehicle, valued for its ability to retain worth over long periods of time.

Gold has historically been a cornerstone of economic systems, serving as a medium of exchange, a store of value, and a standard against which currencies were measured. With the advent of fiat money, gold's direct role in currency valuation has diminished; however, its influence persists through financial markets, investor behaviour, and central bank reserve management. This research paper investigates how gold trading impacts foreign currency values, focusing on the mechanisms through which gold prices affect exchange rates, and vice versa.

Gold's unique physical properties and historical significance make it a crucial asset in the global economy. The relationship between gold trading and foreign currency exchange rates is complex, shaped by market speculation, macroeconomic stability, and geopolitical events. This paper explores how shifts in gold prices affect currency strength and the broader stability of economies, with particular emphasis on the Indian Rupee and the US Dollar.

1.2 Money versus Currency

A common point of confusion in everyday understanding is the distinction between money and currency. Currency is specifically issued by a central government or monetary authority, taking the physical form of paper notes and coins, and is backed by the credibility of the issuing authority. Money, by contrast, is a broader and more abstract concept: it is anything that is standardised, universally accepted as a form of payment, and used as a store of value. Gold is often referred to as “real money” because it exists in limited quantity and holds intrinsic value independent of any government's declaration — in effect, currency is generally backed by money, of which gold remains the most enduring form.

1.3 Rationale for the Study

Despite gold's diminished formal role since the collapse of the Bretton Woods system, it continues to shape currency markets in ways that are often underappreciated by the general public and even by retail investors. India, being one of the largest importers and consumers of gold in the world, offers a particularly relevant setting to study this relationship, since gold imports directly affect the country's trade deficit and, in turn, the value of the Rupee. This study is motivated by the need to examine both the theoretical linkages between gold and currency and the practical awareness that individuals hold regarding these linkages.

2. History Of Gold And The Monetary System

2.1 The Classical Gold Standard

The gold standard was an agreement among participating nations to fix the value of their national currencies in relation to a predetermined quantity of gold (Bordo, n.d.). Because each currency was fixed in terms of gold, exchange rates between participating currencies were also fixed, and countries could buy and sell in terms of gold. The classical gold standard came to an end largely due to the economic disruptions caused by the Second World War, which made it impossible for nations to maintain fixed gold convertibility while financing wartime expenditure.

2.2 The Bretton Woods System

It became apparent during the Second World War that the gold standard would need to give way to a new international monetary framework once the war ended. This new design was conceived at the 1944 Bretton Woods Conference in the United States. Owing to the economic and political dominance of the United States at the time, the US dollar was placed at the centre of the new system. Policymakers sought both the stability associated with fixed exchange rates and greater flexibility than the classical gold standard had allowed.

Under the system designed at Bretton Woods, all other currencies maintained fixed but adjustable exchange rates against the dollar, while the dollar itself was fixed to gold at a parity of US\$35 per ounce. In effect, the dollar became “the new gold”: currencies across the world were backed by the dollar, and the dollar was in turn backed by gold (Corporate Finance Institute, n.d.). The Bretton Woods agreement also facilitated the creation of two of the most important institutions in the modern financial world: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), known today as the World Bank.

3. Relationship Between Gold And Foreign Currency

3.1 Trade Balance and Currency Value

A country's import and export values are closely correlated with the value of its currency. When a country imports more than it exports, it results in a trade deficit — the country is buying more goods and services from abroad than it is selling. This scenario can lead to a depreciation of the domestic currency, because more of the

country's currency must be sold in order to purchase the foreign currencies needed to pay for imports. A nation's currency tends to lose value when its imports persistently exceed its exports.

Conversely, when a country exports more than it imports, it results in a trade surplus: foreign buyers must purchase the exporting country's currency in order to pay for its goods and services, which strengthens the domestic currency. When a nation is a net exporter, its currency tends to appreciate. As a result, when gold prices rise, a nation that exports gold or holds substantial gold reserves will see the value of its total exports increase, strengthening its currency, whereas countries that are large importers of gold will inevitably see a weaker currency as gold prices rise (Smith, 2023). In other words, a rise in the price of gold can create a trade surplus, or help offset an existing trade deficit, for gold-exporting nations.

3.2 Gold and Its Impact on the Indian Rupee

India imports a substantial quantity of gold each year, primarily for jewellery and investment purposes. When gold prices rise, the cost of these imports increases correspondingly, which can widen India's trade deficit. A wider trade deficit means that more foreign currency is required to settle payments for imports, placing downward pressure on the value of the Rupee.

A weaker Rupee has mixed consequences for India's economic growth. On one hand, it can make Indian exports cheaper and more competitive in global markets; on the other, it raises the cost of imports — including gold, oil, and industrial inputs — leading to higher production costs for businesses, reduced profit margins, and potentially higher prices for consumers. This can slow economic growth and place additional pressure on the currency.

Gold prices fluctuate daily depending on international market conditions. If India were a net exporter of gold, the value of the Rupee would tend to increase alongside rising gold prices. However, because India is overwhelmingly a net importer of gold, the opposite dynamic holds: when gold prices rise across the globe, the value of the Rupee tends to decline (Jalan, 2023).

3.3 Gold and Its Impact on the US Dollar

The price of gold is generally inversely related to the value of the US dollar, since the metal is dollar-denominated. All else being equal, a stronger dollar tends to keep gold prices lower and more controlled, while a weaker dollar tends to drive gold prices higher, since more gold can be purchased for the same number of dollars when the currency weakens (Folger, 2023).

Gold and the US dollar are widely regarded as having an inverse relationship: when gold prices rise, the value of the dollar often falls, and vice versa. This dynamic partly arises because both are considered safe-haven assets — financial instruments expected to retain, or even gain, value during periods of economic downturn, and which are uncorrelated or negatively correlated with the broader economy. During periods of economic uncertainty or market volatility, investors often turn to gold as a store of value, which can reduce demand for the dollar as investors rotate out of dollar-denominated assets.

Investors may also buy gold specifically to hedge against the risk of a declining dollar, which pushes gold prices higher as the dollar weakens. Furthermore, many central banks hold gold as part of their foreign exchange reserves. Changes in gold prices affect the value of these reserves and can influence central banks' decisions regarding their dollar holdings; when central banks diversify away from the dollar and into gold, this can itself contribute to a weakening of the dollar.

4. Review Of Literature

4.1 Impact of Commodity Trading on Exchange: Case of Gold

In India's economic history, the launch of commodity trading on an organised exchange in 2002–03 marked a significant turning point. Any commodity that begins trading on an exchange tends to see a surge in artificial demand, and gold has been no exception. This study investigates the effects of the advent of gold trading on its demand, pricing, and safe-haven characteristics. The paper concludes that gold prices have shown exponential growth since the introduction of exchange-traded gold, but this has not been accompanied by a proportional increase in consumption demand. The study also finds that gold has become a somewhat weaker hedge against

capital market fluctuations than it was prior to being listed on an exchange, though it notes that its analysis does not account for all other factors influencing gold prices.

(Purohit, 2013)

4.2 Relationship Between Gold Prices and the Exchange Value of the Rupee

The inverse relationship between the value of the US dollar and that of gold is among the most widely discussed relationships in currency markets. Since the dollar is an internationally accepted currency and most global transactions are dollar-denominated, gold is frequently used as a hedge against adverse movements in the dollar's exchange value. As the dollar's value decreases, more dollars are needed to purchase the same quantity of gold, which pushes gold's price higher. While the value of the dollar is subject to fluctuation through monetary policy shifts and international trade dynamics, the value of gold is largely determined by supply and demand, relatively insulated from shifts in monetary and corporate policy.

(Nair, 2015)

4.3 Impact of International Events on Gold Prices

The price of gold is highly sensitive to international events, including war and political instability. Since gold is a widely accepted store of value worldwide, economic growth typically slows during periods of war, governments face constraints on policy response, and domestic currencies may decline in value — while gold prices rise as more investors seek to purchase it as a haven. During financial crises, currency values tend to decline and large numbers of banks and financial institutions face insolvency risk, both of which contribute to rising gold prices. The study cautions that investors should weigh other macroeconomic factors alongside geopolitical risk when forecasting gold prices.

(Hao, 2020)

4.4 Hedging Market Volatility with Gold

This study argues that it is difficult to determine gold's “true” value so long as it continues to be priced predominantly in US dollars, and proposes examining gold's daily average returns denominated in dollars, euros, and British pounds simultaneously. The authors note that prior research has generally treated “safe haven” status as synonymous with the avoidance of excessively negative returns; however, it is precisely the risk of such extreme volatility that draws investors toward gold as a safe haven in the first place.

(Dicle, n.d.)

4.5 Is Gold a Hedge Against Inflation? New Evidence from a Nonlinear ARDL Approach

Growing economic uncertainty arising from frequent financial and economic crises over recent decades has renewed interest in the relationship between gold prices and inflation. This study tests whether gold serves as a hedge against inflation using a nonlinear autoregressive distributed lag (NARDL) model, following the methodology of Shin et al. (2014), which allows the researchers to examine both the nonlinear and the simultaneous short- and long-run asymmetric relationship between gold prices and inflation. The study finds that a nonlinear relationship holds in developed, large gold markets such as the UK, the USA, and Japan, while a linear relationship better describes smaller or emerging gold markets such as France, China, and India.

(Hoang, 2016)

4.6 Gold as a Hedge Against the Dollar

When gold functioned as the medium of exchange or the foundation of the monetary system, other currencies were pegged to gold at a fixed price, meaning that price behaviour was independent of government and central bank policy and instead determined by the supply and demand for gold itself. This created an automatic stabilising mechanism: if the relative price of goods rose compared to gold, the incentive to produce gold declined and existing stock was redirected toward non-monetary uses such as jewellery; if the relative price of goods fell, the value of gold rose, stimulating gold production.

(Capie, 2005)

4.7 The Australian Dollar and Gold Prices

This study provides evidence, based on both means and conditional volatilities, supporting the hypothesis that the nominal and real exchange rate of the Australian dollar relative to the US dollar is related to gold prices. The findings are of particular relevance to international portfolio managers, hedge fund managers, monetary policymakers, and gold exporters. Causal estimations in both means and volatilities point to a bidirectional causal relationship, reinforcing the theory that both markets are driven by a common set of underlying information, and suggesting that future gold prices can, to some extent, be predicted using exchange rate movements.

(Apergis, 2013)

4.8 Forecasting Volatility of Gold Price Using Markov Regime Switching and Trading Strategy

This study forecasts gold price volatility using Markov Regime Switching GARCH (MRS-GARCH) models, which allow volatility dynamics to vary according to unobserved regime variables. The primary objective is to test whether MRS-GARCH models improve upon standard GARCH-type models in modelling and forecasting gold price volatility. The study finds that the MRS-GARCH model performs best under certain loss functions, and that forecasts of gold closing prices generated using this approach achieve cumulative returns comparable to those of the GJR-GARCH model.

(Sopipan, 2011)

4.9 An Overview of the Global Gold Market and Gold Price Forecasting

This study notes that the global gold market has attracted considerable attention in recent years, with gold prices trading relatively higher than their historical trend. For mining companies seeking to mitigate risk and uncertainty from gold price fluctuations and to make informed hedging and investment decisions, accurate forecasting of future price trends is essential. The paper reviews the historical trend of gold prices from January 1968 to December 2008, examines the relationship between gold prices and other key variables such as oil prices and global inflation over the preceding forty years, and applies a modified econometric long-term trend-reverting jump-and-dip diffusion model to forecast natural-resource commodity prices.

(Shafiee, 2010)

4.10 The Impact of Monetary Policy on Gold Price Dynamics

This study investigates the extent to which gold functions as a safe haven in the stock market and as a hedge against inflation, currency fluctuations, and stock market volatility, examining US investors from 2003 to 2015 and UK investors from 1985 to 2015. The findings confirm that during 1985–1997, when inflation and inflation expectations were high in the UK, gold served as an effective inflation hedge; however, during subsequent low-inflation periods, gold did not perform the same hedging function.

(Zhu, 2018)

4.11 Research Gap

While the reviewed literature establishes strong theoretical and empirical linkages between gold prices, exchange rates, and macroeconomic conditions, most of these studies rely on secondary, market-level data such as historical price series and macroeconomic indicators. Relatively few studies examine the awareness and perception of the general investing public regarding these linkages, particularly in the Indian context. This study seeks to address that gap by combining a review of established theory with primary survey data on investor awareness and sentiment.

5. Research Objectives, Hypotheses And Scope

5.1 Objectives of the Study

To examine the impact of global events — such as financial crises, geopolitical tensions, and major economic policies — on gold trading and foreign currency values.

To study gold's correlation with the US Dollar and the Indian Rupee, and how this correlation affects their primary and secondary markets.

To understand the difference between paper money and physical gold.

To understand the relationship between gold and a country's trade deficit.

To understand how investor behaviour and sentiment towards gold as a safe-haven asset affect foreign currency markets.

5.2 Hypotheses

H01: People are unaware of the impact of global events on gold trading.

HA1: People are aware of the impact of global events on gold trading.

H02: Gold is not directly related to the Dollar and the Rupee.

HA2: Gold has a direct relationship with the Dollar and the Rupee.

H03: There is no correlation between gold and the trade deficit.

HA3: There is a direct correlation between gold and the trade deficit.

H04: Investor behaviour and sentiment towards gold as a safe-haven asset have no relationship with foreign currency markets. HA4: Investor behaviour and sentiment towards gold as a safe-haven asset have a direct relationship with foreign currency markets.

5.3 Key Terms

Trade Deficit — A trade deficit occurs when a country's imports exceed its exports during a given period.

Trade Surplus — A trade surplus occurs when a country's exports exceed its imports during a given period.

Gold Trading — The practice of speculating on gold prices in financial markets in order to make a profit.

Safe-Haven Asset — A financial instrument expected to retain, or even gain, value during periods of economic downturn.

Currency — A form of paper money issued by a government; currency is one manifestation of money.

Money — An abstract concept encompassing anything that is standardised and accepted as payment, including tangible assets such as gold.

Hedging — A risk-management strategy employed to offset potential losses in one investment by taking an opposing position in a related asset.

5.4 Scope of the Study

This research paper aims to analyse public awareness of the impact of gold trading on foreign currency values. It gathers data on the perceived importance of gold trading and its effect on macroeconomic factors such as GDP, interest rates, national income, and inflation. The study also examines how imports and exports are affected by gold trading, and provides insight into the relationship between gold and the value of the Dollar and the Rupee.

5.5 Limitations of the Study

Existing secondary data relevant to the specific objectives and scope of this study was limited, making it difficult to draw robust inferences or locate well-structured, directly comparable prior research.

Available secondary data on the impact of gold trading on foreign currency was often open-ended and unstructured.

The objectives of this study are deliberately narrow in scope, which limited the extent to which broader dimensions of the topic could be explored.

The primary data was collected through a questionnaire administered to the general public, whose prior knowledge of the subject matter was, in some cases, limited.

6. Research Methodology

6.1 Research Design

This study adopts a descriptive and analytical research design, combining a review of secondary literature with primary data collected through a structured questionnaire. The secondary research establishes the theoretical and historical foundation for the relationship between gold and foreign currency, while the primary research empirically tests public awareness and perception of this relationship.

6.2 Data Collection

Primary data was collected through a structured questionnaire administered to 73 respondents. The questionnaire captured respondents' awareness of the relationship between gold prices and currency exchange rates, their frequency of tracking gold-related economic news, their motivations for holding gold, their perception of central bank gold reserves, and their views on India's gold demand and its macroeconomic implications.

Secondary data was drawn from academic journal articles, industry publications (including Investopedia, the World Gold Council, and the Corporate Finance Institute), and prior empirical studies on gold price behaviour and its relationship with currency markets, as detailed in the Review of Literature.

6.3 Sample Size

The primary survey was administered to a sample of 73 respondents drawn from the general public and retail investors.

6.4 Statistical Tools Used

Descriptive statistics (frequency counts and percentages) to summarise respondent awareness and perception.

Chi-Square test of independence to assess whether the observed distribution of responses differs significantly from an expected uniform distribution.

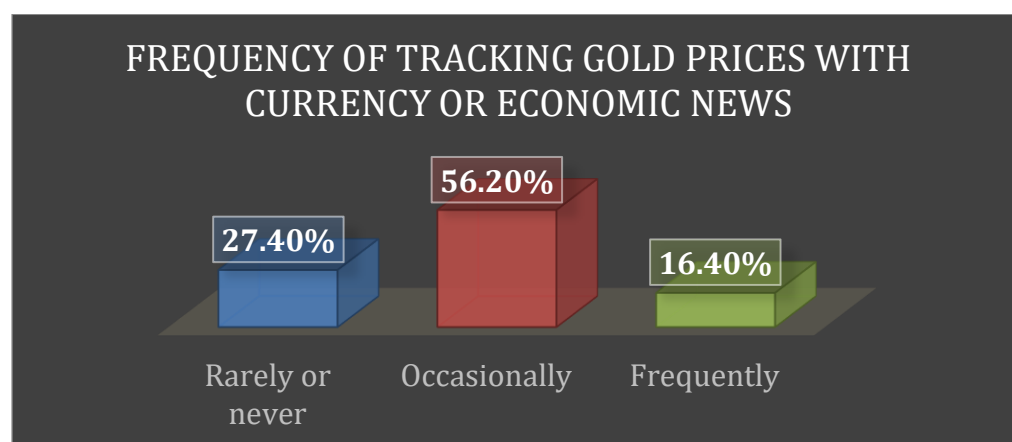
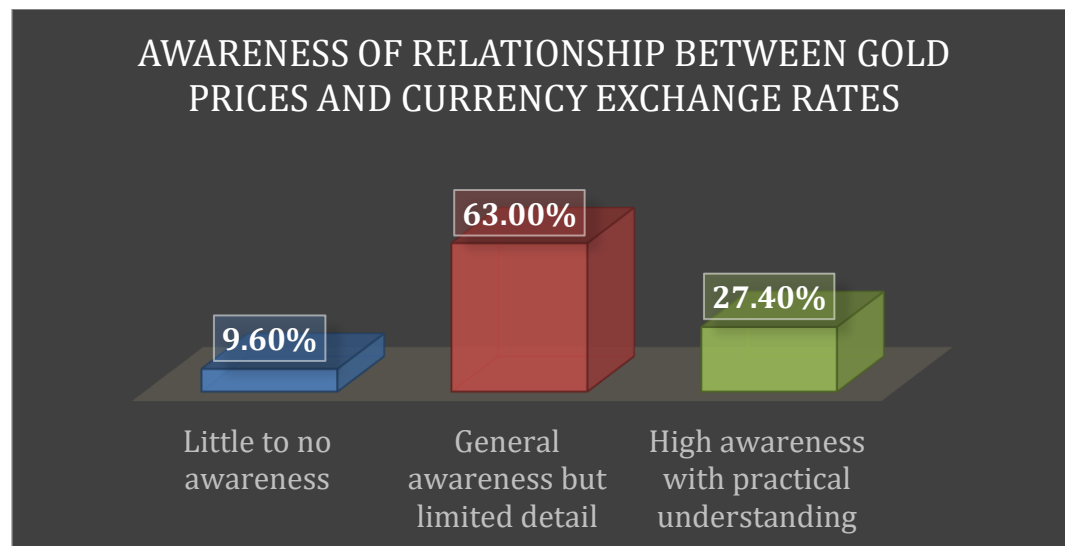
Kendall's tau-b correlation coefficient to measure the strength and direction of association between ordinal survey variables.

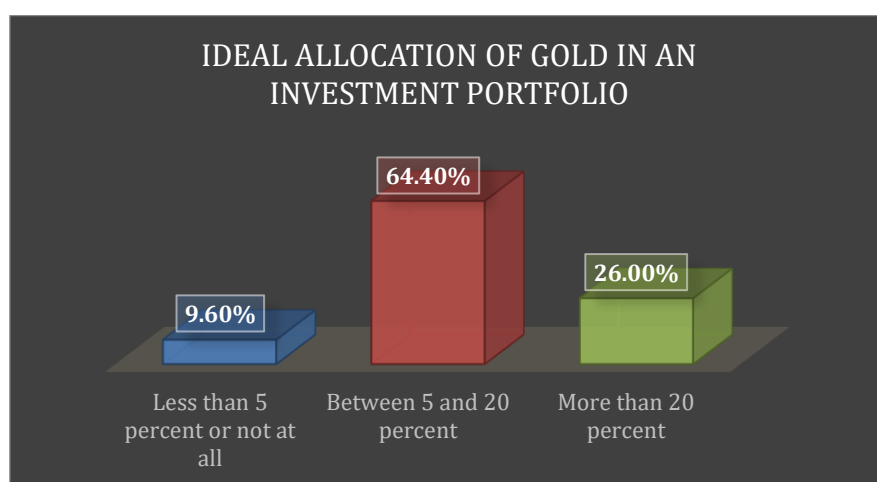
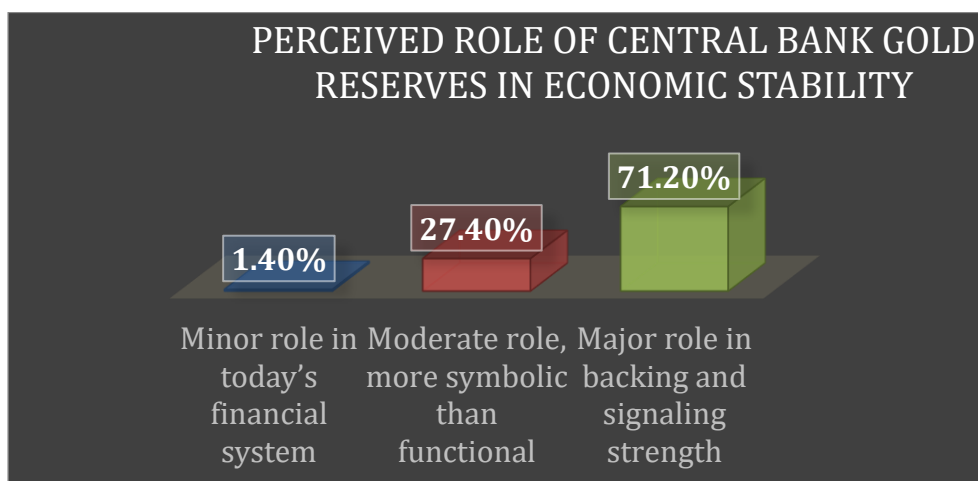
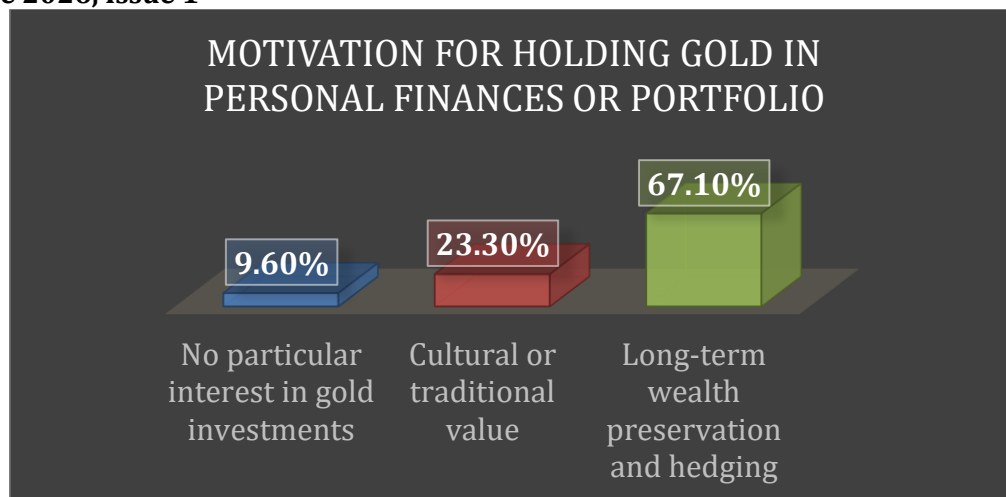
7. Data Analysis And Interpretation

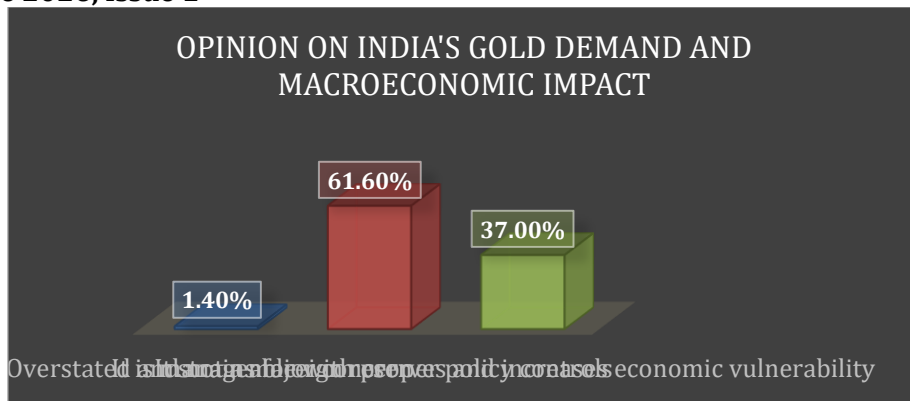
Basic Data Distribution:

		Count	Percentage
Awareness of relationship between gold prices and currency exchange rates	Little to no awareness	7	9.60%
	General awareness but limited detail	46	63.00%
	High awareness with practical understanding	20	27.40%
Frequency of tracking gold prices with currency or economic news	Rarely or never	20	27.40%
	Occasionally	41	56.20%
	Frequently	12	16.40%
Motivation for holding gold in personal finances or portfolio	No particular interest in gold investments	7	9.60%
	Cultural or traditional value	17	23.30%
	Long-term wealth preservation and hedging	49	67.10%
Perceived role of	Minor role in today's financial system	1	1.40%

central bank gold reserves in economic stability	Moderate role, more symbolic than functional	20	27.40%
	Major role in backing and signaling strength	52	71.20%
Effect of global gold demand on strength of foreign currencies	Not much of a connection in practice	5	6.80%
	Has some indirect influence	25	34.20%
	Gold demand significantly influences currency value	43	58.90%
Ideal allocation of gold in an investment portfolio	Less than 5 percent or not at all	7	9.60%
	Between 5 and 20 percent	47	64.40%
	More than 20 percent	19	26.00%
Opinion on India's gold demand and macroeconomic impact	Overstated and not a major concern	1	1.40%
	It is manageable with proper policy controls	45	61.60%
	It strains foreign reserves and increases economic vulnerability	27	37.00%



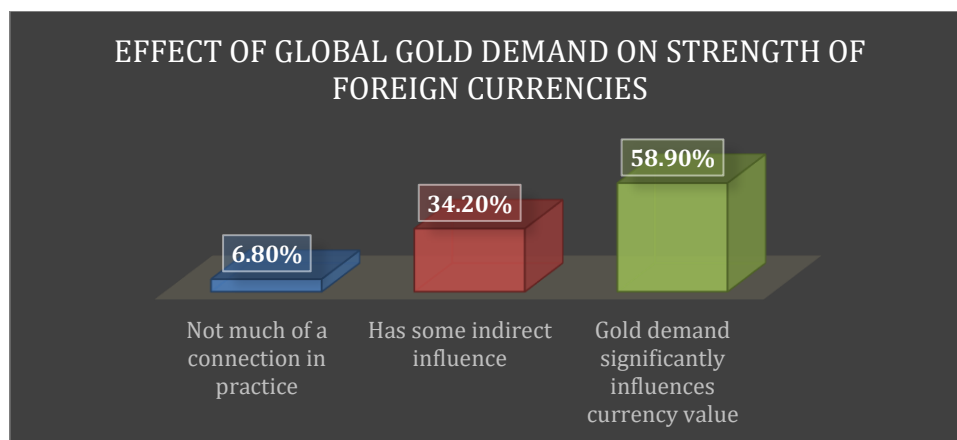




H₀. Gold is not directly related with dollar and rupee.

H₁. Gold has direct relation with dollar and rupee.

Effect of global gold demand on strength of foreign currencies	Count	Percentage
Not much of a connection in practice	5	6.80%
Has some indirect influence	25	34.20%
Gold demand significantly influences currency value	43	58.90%



Chi-Square test results:

Test Statistics	
	Value
Chi-Square	29.699
Df	2
p-value	.000
a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 24.3.	

Interpretations:

The distribution of responses indicates a **strong consensus** among respondents regarding the influence of global gold demand on foreign currency strength. Out of 73 respondents, **43 respondents** believed that gold demand

significantly influences currency value, which is substantially higher than the expected frequency (Expected N = 24.3), resulting in a large **positive residual (+18.7)**. This suggests that this response category is chosen far more often than would be expected under a uniform or random distribution. There are only **5 respondents** indicated that there is **not much of a connection in practice**, which is far below the expected frequency of 24.3, yielding a **large negative residual (-19.3)**.

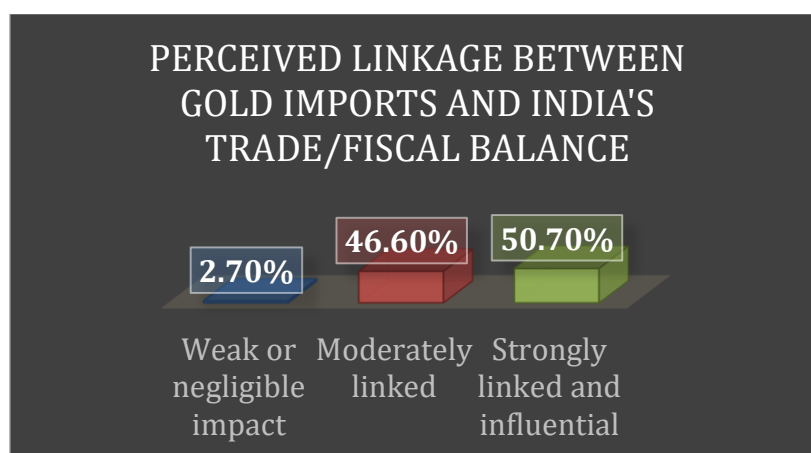
The chi-square test results further support these observations. The chi-square value of $\chi^2 = 29.699$ with **2 degrees of freedom** is statistically significant ($p < 0.001$), indicating that the observed distribution of responses differs significantly from the expected distribution. Since no cells have expected frequencies below 5, the assumptions of the chi-square test are fully satisfied, and the results are considered robust.

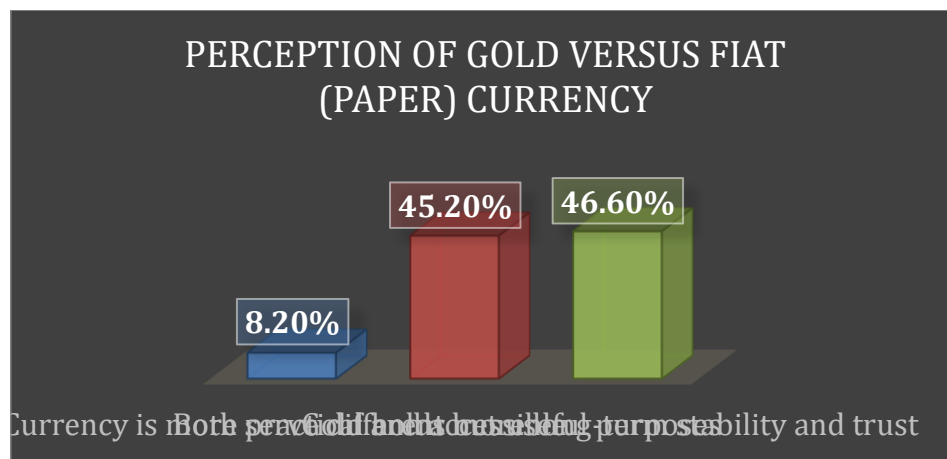
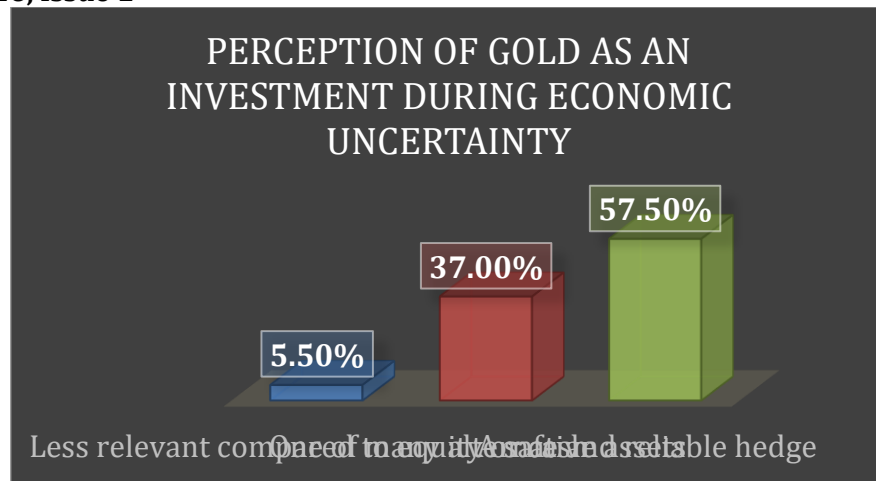
Based on the empirical findings, respondents largely acknowledged the influence of global gold demand on foreign currency strength. The chi-square test yielded a **statistically significant result** ($\chi^2 = 29.699$, $df = 2$, $p < 0.001$), indicating that perceptions regarding the effect of gold demand on currency values are not random. A substantial majority of respondents believed that gold demand **significantly influences currency value**, far exceeding the expected frequency.

H₀ (Null): There is no association between perceptions of gold as an investment during economic uncertainty or as linked to India's trade/fiscal balance—and perceptions of gold versus fiat (paper) currency.

H₁ (Alternative): There is an association between perceptions of gold as an investment during economic uncertainty or as linked to India's trade/fiscal balance—and perceptions of gold versus fiat (paper) currency.

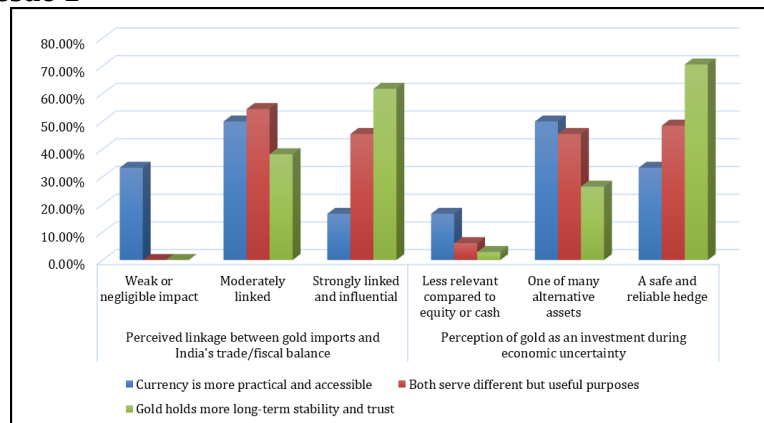
		Count	Percentage
Perceived linkage between gold imports and India's trade/fiscal balance	Weak or negligible impact	2	2.70%
	Moderately linked	34	46.60%
	Strongly linked and influential	37	50.70%
Perception of gold as an investment during economic uncertainty	Less relevant compared to equity or cash	4	5.50%
	One of many alternative assets	27	37.00%
	A safe and reliable hedge	42	57.50%
Perception of gold versus fiat (paper) currency	Currency is more practical and accessible	6	8.20%
	Both serve different but useful purposes	33	45.20%
	Gold holds more long-term stability and trust	34	46.60%





Association of

		Perception of gold versus fiat (paper) currency					
		Currency is more practical and accessible		Both serve different but useful purposes		Gold holds more long-term stability and trust	
		Count	%	Count	%	Count	%
Perceived linkage between gold imports and India's trade/fiscal balance	Weak or negligible impact	2	33.3%	0	0.0%	0	0.0%
	Moderately linked	3	50.0%	18	54.5%	13	38.2%
	Strongly linked and influential	1	16.7%	15	45.5%	21	61.8%
Perception of gold as an investment during economic uncertainty	Less relevant compared to equity or cash	1	16.7%	2	6.1%	1	2.9%
	One of many alternative assets	3	50.0%	15	45.5%	9	26.5%
	A safe and reliable hedge	2	33.3%	16	48.5%	24	70.6%



Kendall's tau-b Correlation:

		value
Perceived linkage between gold imports and India's trade/fiscal balance & Perception of gold versus fiat (paper) currency	Correlation Coefficient	.270*
	p-value	.017
Perception of gold as an investment during economic uncertainty & Perception of gold versus fiat (paper) currency	Correlation Coefficient	.254*
	p-value	.023

Interpretations:

1. Relationship between perceived linkage of gold imports and perception of gold versus fiat currency

- Among respondents who viewed gold imports as **strongly linked and influential** to India's trade/fiscal balance, **61.8% perceived gold as holding more long-term stability and trust**, while 45.5% viewed it as serving a useful purpose alongside fiat currency, and only 16.7% considered currency more practical.
- For respondents who saw gold imports as **moderately linked**, 38.2% believed gold holds more long-term stability, 54.5% considered it useful alongside currency, and 50% thought currency is more practical.
- Respondents who perceived **weak or negligible impact** mostly rated currency as more practical (33.3%), with none seeing gold as more stable.

Correlation Insight:

- Kendall's tau-b correlation between perceived linkage of gold imports and perception of gold versus fiat currency is $\tau = 0.270$, $p = 0.017$, indicating a **significant positive relationship** at the 5% level.

Interpretation: Respondents who recognize a stronger link between gold imports and India's trade/fiscal balance are more likely to view gold as a stable and trustworthy asset compared to fiat currency.

Relationship between perception of gold as an investment during economic uncertainty and perception of gold versus fiat currency

- Among respondents who consider gold a **safe and reliable hedge**, 70.6% perceived it as holding more long-term stability, 48.5% saw it as useful alongside currency, and 33.3% thought currency is more practical.
- Respondents who viewed gold as **one of many alternative assets** mostly considered it useful alongside currency (45.5%), with 26.5% believing gold holds long-term stability, and 50% finding currency more practical.

- Those who rated gold as **less relevant compared to equity or cash** mostly preferred currency (16.7%) or found it somewhat useful alongside currency.

Correlation Insight:

- Kendall's tau-b correlation between perception of gold as an investment during economic uncertainty and perception of gold versus fiat currency is $\tau = 0.254$, $p = 0.023$, showing a **significant positive relationship** at the 5% level.

Interpretation: Respondents who view gold as a safe and reliable hedge during uncertain economic periods tend to perceive gold as more stable relative to fiat currency.

Given the **statistically significant associations** observed in both relationships, the **null hypothesis (H_0) is rejected**, and the **alternative hypothesis (H_1) is accepted**.

8. Conclusion

This study set out to examine the relationship between gold trading and foreign currency values, with particular reference to the Indian Rupee and the US Dollar. The secondary research traced gold's historical role from the classical gold standard through the Bretton Woods system to its present-day function as a safe-haven asset and central bank reserve holding, establishing that although gold no longer formally anchors any currency, its influence on exchange rates persists through trade balances, investor sentiment, and central bank behaviour.

The primary research, conducted through a structured questionnaire of 73 respondents and analysed using Chi-Square and Kendall's tau-b tests, provides strong empirical support for the view that the investing public perceives gold as directly and significantly related to currency value. Respondents overwhelmingly associate rising global gold demand with currency strength, and those who perceive a stronger linkage between gold imports and India's trade/fiscal balance are significantly more likely to view gold as a more stable store of value than fiat currency.

Taken together, these findings lead to the rejection of all four null hypotheses tested in this study and the acceptance of their respective alternative hypotheses: people are broadly aware of the impact of global events on gold trading; gold has a direct relationship with the Dollar and the Rupee; there is a direct correlation between gold and the trade deficit; and investor behaviour and sentiment towards gold as a safe-haven asset does affect foreign currency markets.

For a country such as India, which remains one of the world's largest gold importers, these findings carry practical significance. Policymakers must continue to balance the cultural and investment demand for gold against its consequences for the trade deficit and foreign reserve stability, while investors and financial educators should look to build on the general awareness already present among the public and deepen practical understanding of how gold price movements interact with currency markets.

9.1 Suggestions for Future Research

Future studies could expand the sample size and geographic diversity of respondents to improve the generalisability of findings beyond the present sample.

A time-series analysis of actual gold price and INR/USD exchange rate data could complement the perception-based findings of this study with objective market evidence.

Further research could examine the differential impact of gold trading on currency values across developed versus emerging gold markets, building on the distinction identified by Hoang (2016).

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