



**IS GOLD A PERFECT HEDGE?  
RELATIONSHIP BETWEEN GOLD  
RETURNS AGAINST STOCK, INFLATION  
AND CURRENCY EXCHANGE IN PAKISTAN**

A Thesis submitted to Department of Management Sciences in  
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## **Abstract**

It is observed that when the stock market rise the price of gold decline in the market. To study this relationship, in this thesis we try to build a relationship between the three investment markets (Bullion market, Stock market and Bond Market) in Pakistan by studying the common variables which effects the thrice markets. In this way we can develop an equation based on the mentioned variables which can give us the gold prices as per the changes in the stock and bond markets due to the influence of different variables.

The study involves trend analysis and correlation analysis for the monthly and annual returns of the gold prices (Prices in Pakistan and International Prices), Stock market, US dollar, and inflation. Returns are studied for short term and long term periods; and their affect on gold prices is analyzed. Further to verify the results Regression, ANOVA and Correlation tests were applied.

The relationship between gold and stock prices is found very weak for the long period of time, yet it is found stronger for shorter intervals. It is found that gold provides good security against the stock. When the stock prices decline, gold returns have balanced the loss. Hence, gold is rightly considered as the hedge against the stock market. The relationship with other market factors is found relatively weak to develop any relationship between the variables.

The study will be quite useful to clear the thoughts about the application of gold as a hedge against the market conditions, inflation and dollar rates in Pakistan.

**Keywords:** Gold, Hedge, Stock Market, Inflation, US Dollar

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