

# REPORT ON GOLD & SILVER

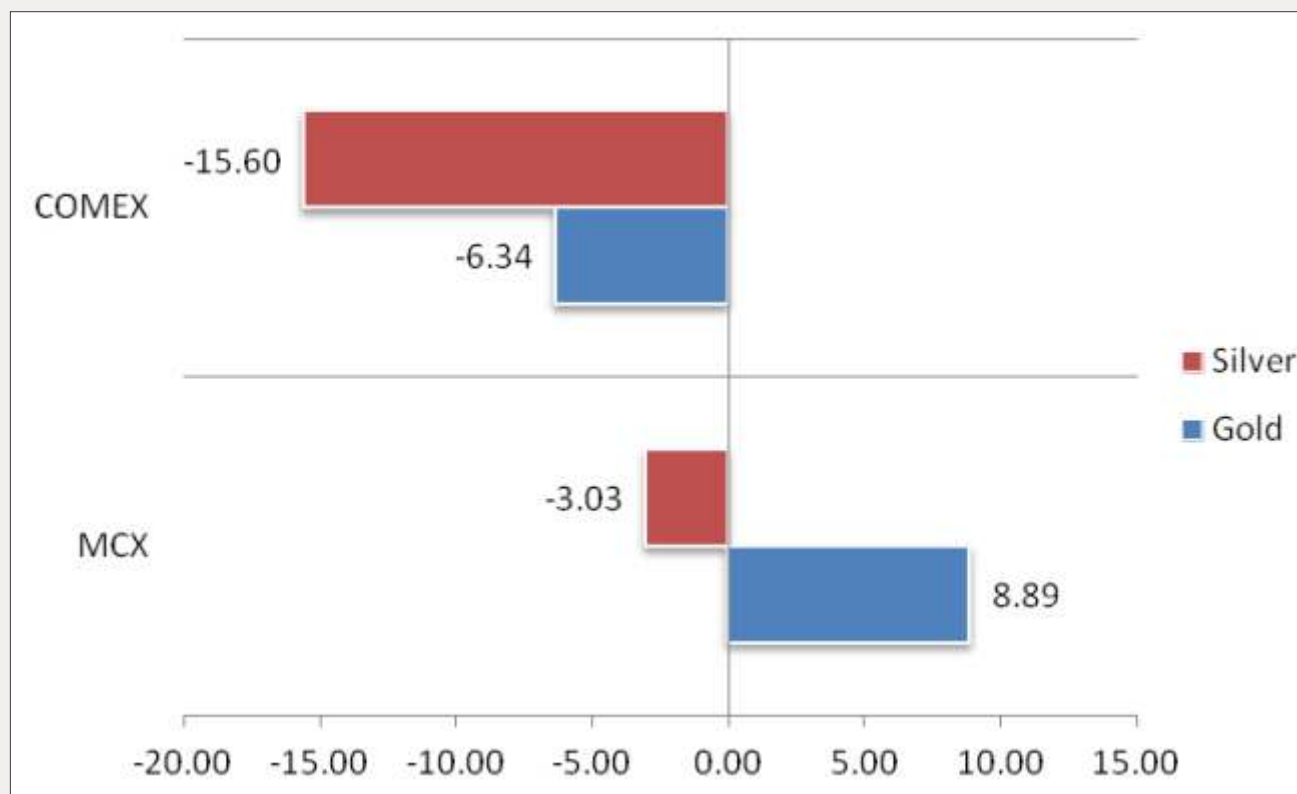
## DHANTERAS & DIWALI

(Special)



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## GOLD AND SILVER PRICE MOVEMENT IN 2018



Source: SMC Research

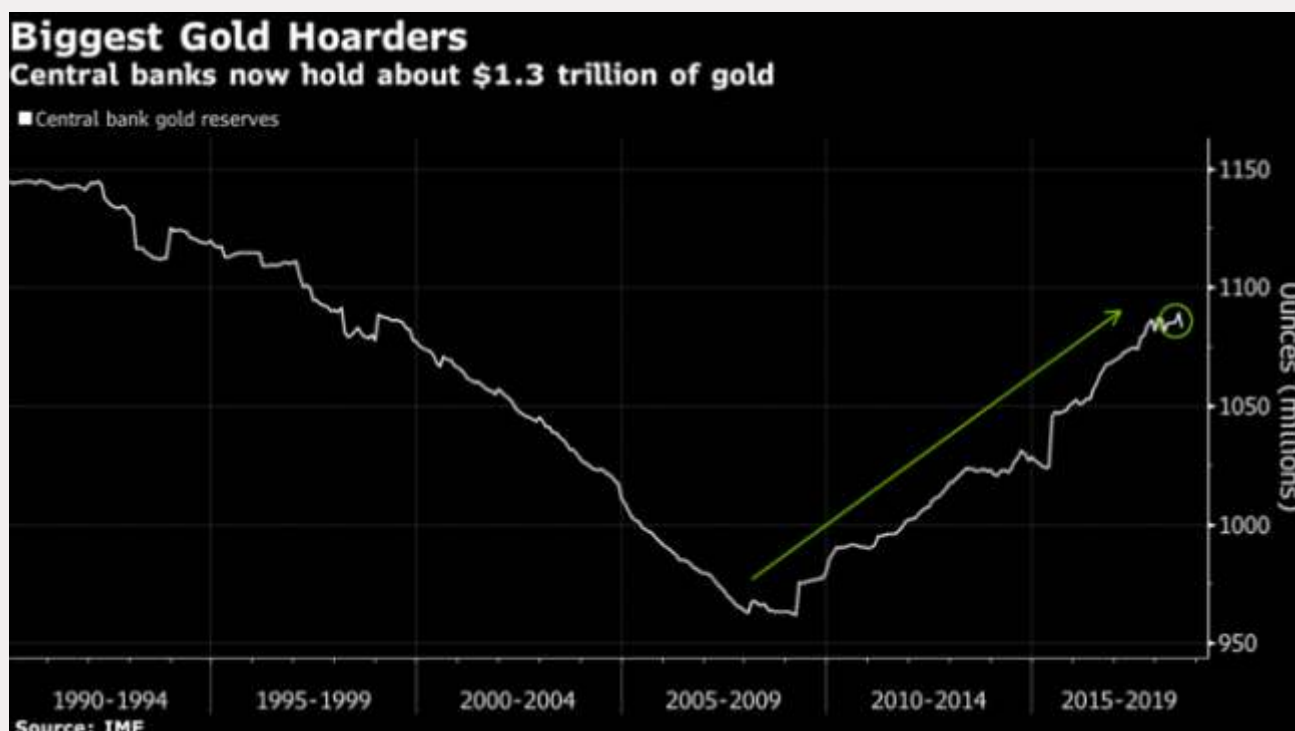
### Overview and Outlook of Gold

Recently bullion counter on domestic bourses traded on positive path as falling global stock markets prompted safe haven demand coupled with weakness in local currency rupee. U.S. industrial production increased for a fourth straight month in September, boosted by gains in manufacturing and mining output, but momentum slowed sharply in the third quarter. Recently gold has rallied on safe haven demand as China locked in trade war with US and Italy trying to solve its budget issue without spill over risks to the Euro zone. Meanwhile US President Trump renewed attacks on the Fed's policy tightening have also highlighted the political pressure on the US Central bank. The European Central Bank will end its bond-buying programme in less than three months, with a low likelihood of an extension despite a cocktail of political and trade concerns. The Italian cabinet signed off on an expansionary 2019 budget, boosting welfare spending, cutting the retirement age and hiking the deficit to set up a showdown with authorities in Brussels over compliance with EU rules. SPDR Gold Trust GLD, the world's largest gold-backed exchange traded fund, holdings stood at 748.76 tonnes. The International Monetary Fund cut its global economic growth forecasts for 2018 and 2019, saying that trade policy tensions and imposition of import tariffs were taking a toll on global trade and commerce.

The U.S. Federal Reserve should continue raising interest rates at least two but probably three more times before assessing whether further rate hikes to restrain growth are warranted, Dallas Federal Reserve Bank President Robert Kaplan stated last month. ECB reaffirmed its plan to end the asset-buying program, also as expected there was no change in the interest rate and also no indication were also given about the for the future. The European Commission rejected Italy's draft 2019 budget, saying it brazenly broke EU rules on public spending, and asked Rome to submit a new one within three weeks or face disciplinary action. Physical demand in India can get boost as the most auspicious day of the year to buy gold is Dhanteras.

## Global central bank gold buying

The gold market was caught by surprise when two of eastern Europe’s biggest economies, Poland and Hungary, made rare purchases in recent months. Mainly to diversify their reserves. Gold - a finite asset as opposed to a fiat currency - can help stabilize economies amid times of market turmoil. Bullion has a time-honored appeal as a haven and hedge against inflation. And gold has a negative correlation with the dollar, which means its value often rises when there’s a dip in global demand for the U.S. currency. Central bank holdings of gold have jumped in the past decade, driven mainly by Russia, China and Kazakhstan, among other countries. Central banks now hold more than 33,000 metric tons of the metal, about a fifth of all the gold ever mined.



## Chinese investors buying more gold

China’s investors have faced a challenging time this year, hit by falling prices in both equity and corporate bond markets. China’s leading index, the CSI 300, has underperformed the MSCI World Index by around 20% since 1 January 2018. On the domestic front, deleveraging and tighter rules on shadow banking have played an important role. But China has also been buffeted by problems on the international stage, including the Federal Reserve’s desire to shrink its balance sheet and the escalating trade war with the US. In such an environment, the benefits of gold investment stand out.

## Mid-Term U.S. Elections Will Drive Physical Gold, Silver Market

The Nov. 6 mid-term elections in US could have a direct impact on the physical bullion market. Along with geopolitical uncertainty, growing economic uncertainty will also continue to support the gold and silver market. The midterm elections in the United States next week will determine which party controls the U.S. Congress. Investors’ inclination towards gold can be seen in the holdings of the largest gold-backed exchange-traded-fund (ETF), New York’s SPDR Gold Trust, which rose to their highest in two months, at 24.27 million ounces. American voters will elect all 435 members of the House of Representatives and 35 of 100 Senators (as well as 36 state governors and many other local officers).

## World Gold council estimates of Indian demand

According to the World Gold Council (WGC) “Indian gold demand in 2018 is expected to fall from the previous year as a rally in local prices to five-year highs is likely to dent purchases during key festivals in the December quarter”. A fall in demand from the world’s second-biggest bullion buyer could weigh on global prices that are already down 6.5 percent so far this year. But lower imports could also help the South Asian country reduce its trade deficit and support a weak rupee, which hit a record low last month. Gold demand in India usually spikes towards the end of the year, when buying the precious metal for weddings and major festivals such as Diwali and Dussehra is considered auspicious. This year’s seasonal increase could be moderate, though, due to a liquidity crunch, rising local prices and impending elections in some key states that could impact trade logistics. In the July-September quarter, Indian gold demand rose 10 percent from a year earlier to 183.2 tonnes, as prices fell to their lowest in 2018, encouraging bargain buying.

## Gold Silver ratio



**Analysis:** Gold silver ratio increased from above 76 to above 85 levels in past few months as gold outperformed silver. Gold-silver ratio, which denotes the ounces of silver required to buy one ounce of gold, currently hovers around 85. This is its highest level in more than a decade. The average gold-silver ratio for the past 20 years has been 60 and every time the ratio moves up and down, it has returned to the average. This means silver can catch up with gold in medium to long term.

## COMEX GOLD DAILY CHART



Source: Reuters

## MCX GOLD DAILY CHART



Source: Reuters

## COMEX SILVER DAILY CHART



Source: Reuters

## MCX SILVER DAILY CHART



Source: Reuters

SILVER

## TECHNICAL SCENARIO

### Short Term Outlook

#### Gold

COMEX Gold has been in short term uptrend with formation of higher tops and higher bottom. The higher bottom at \$1180 on spot remains the key for bulls in short term and prices should not break below it. On the upside, 200 days SMA is placed at \$1269 and prices are likely to test these levels in short term considering the weakness in dollar against major currencies has just begun.

**On MCX, prices are likely to find support around 50 day SMA which currently reads at Rs. 31170. A short term bounce can again be witnessed from supports which can take prices higher towards Rs. 32400 to Rs. 33000 range in next 1-3 months.**

#### Silver

COMEX Silver can bounce towards \$15.3 and \$15.75 considering the immediate weakness in dollar index prices will support commodity prices. The structure is more of a sideways one with no clear direction.

**On MCX, the upside for Silver will remain capped near Rs. 41000 and short term dips near 36000-37000 can again be used as a buying opportunity from 1-3 months horizon.**

### Long Term Outlook

#### Gold

COMEX Gold prices stuck in the wider range of \$1100 and \$1370. Although, the current formations suggest the prices could take resistance near \$1280 dollars (where confluence of forecasting indicators meet) from where a fall towards \$1100 can again be witnessed.

**On MCX, the upside for Gold remains capped at Rs. 33100 and prices can find support around Rs. 29500 which has provided strong support to prices in the past.**

#### Silver

On the other hand, the downside will remain capped for COMEX Silver at \$13.5. Considering the very long consolidation in prices at the bottom range suggests that it is trying to bottom out, although the journey for this bottoming out will take long to show strength in prices. Accumulation on dips is suggested in this commodity for long term gains.

**On MCX, Silver supports of Rs.35500-36000 will always provide support to the commodity and buying from those levels will continue to reward investors with gains.**

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