

**SPECIAL
REPORT ON**

GOLD & SILVER

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Glittering Bullions*



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5th September, 2019

Overview

Yellow metal gold which is witnessing upside momentum recently as safe haven buying due to escalating US China trade tensions, concerns over Italy, Brexit, decline in US treasury yields and monetary easing stance by many central banks globally is keeping the prices upbeat.

Economic uncertainty globally and repercussions of US China trade war globally and central banks buying are some key factors assisting the recent rally.

Yellow metal has appreciated more than 25% in MCX and 21% in COMEX while silver appreciated by more than 28 % in MCX and above 25% in COMEX since the beginning of this year 2019.

The monetary easing policy taken by some key central banks globally are also fueling the upside in yellow metal. Recently in Jackson Hole symposium Federal Reserve Chair Jerome Powell stated that the central bank would "act as appropriate" to keep the US economy healthy in a deteriorating global economy. In escalation of trade war with China, recently US President Donald Trump ratcheted up the rhetoric on China, ordering US companies to look at ways to close operations in the country, which sent equities tumbling and drove further inflows into safe-haven gold.

Gold managed to cross the key level of \$1550 in COMEX and 39500 in MCX recently while silver breached above 50000 in MCX and \$19.40 in COMEX.

But in India high gold prices have hit demand. With domestic gold prices soaring, gold was being sold at a discount for the past three months. Dealers were offering a discount of up to \$31-33 an ounce over official domestic prices.

Bullish factors impacting Gold

Dovish stance by key central banks

Central banks across the globe have continued to maintain their dovish stance, to the delight of investors, particularly in the US, where markets are already pricing at least three rate cuts before year end. The ECB, on the other hand, has now ruled out a rate hike before summer 2020, alongside its TLTRO program. The PBOC appears ready to play its part in supporting the Chinese economy: the governor has stepped up his dovish rhetoric by indicating that the central bank has "tremendous scope" to act on the monetary front. Furthermore, some countries (India, Indonesia) have already implemented rate cuts over the past months, with more likely to follow.

The Fed has opened the door to rate cuts, but it may not be as aggressive as the market expects. Citing slowing global growth and muted inflation, the Fed cut interest rates in July 2019 for the first time in more than a decade, reducing its target range by a quarter of a percentage point to a range of 2% to 2.25%. Powell described the rate reduction at the time as "a mid-cycle adjustment to policy. Recently Federal Reserve Chairman Jerome Powell stated the U.S. economy is in a favorable place but faces "significant risks," reinforcing bets for another interest-rate cut in September meeting.

Chances of fed rate cut in Sep meeting

The fed funds futures market now points to a 74% chance of at least a quarter-point rate cut at the Fed's September meeting, according to the CME Fed Watch tool. Traders are also pricing in two more cuts to the benchmark lending rate to a range of 150 to 175 basis points by the end of 2019. The central bank also left the door open to future cuts, saying it will "act as appropriate to sustain the expansion" as it continues to evaluate the incoming data.

Escalating US China trade war

The growing US China trade war which has started in first quarter of last year does not seem to end anytime soon now. Initiating tariff actions in March 2018, Trump asserted "trade wars are good, and so easy to win," but as the China conflict continued to escalate even now. The trade war has caused a significant deterioration in China–United States relations as the countries exchanged tit for tat tariffs for over a year, with Trump threatening more to come, with no resolution in sight.

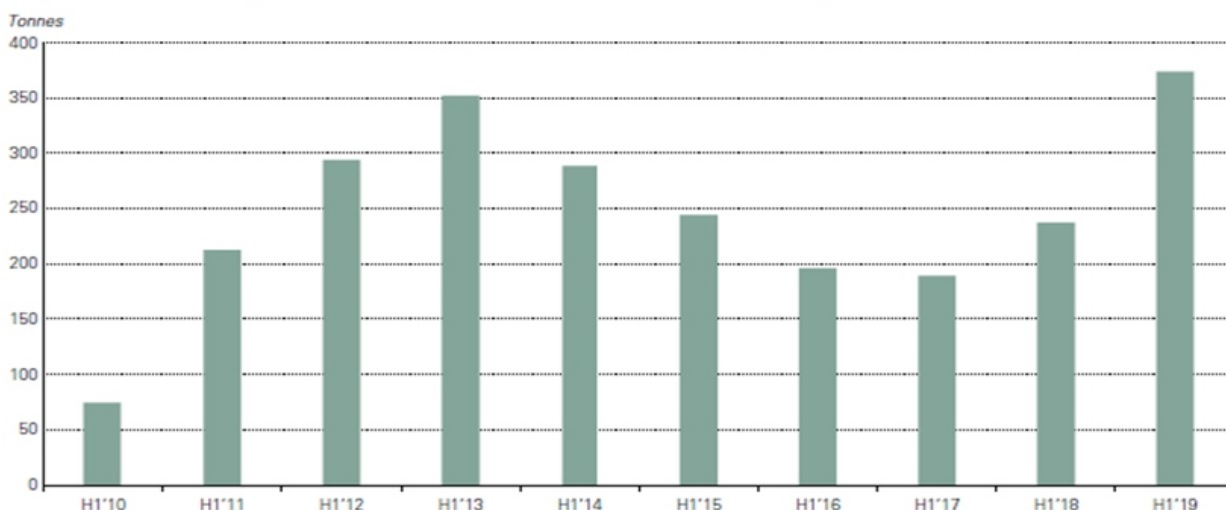
Recently the tariffs of \$111 billion worth still took place on September 1 (which means that on September 1, \$361 billion total worth, including the newly imposed \$111 billion, of Chinese products will face a tariff), but the additional, not yet imposed, \$156 billion will not take effect until December 15. Meanwhile China unveiled retaliatory tariffs against about \$75 billion worth of U.S. goods. Chinese Ministry of Finance announced new rounds of retaliative tariffs on \$75 billion worth of U.S. goods, effective beginning September 1, 2019. Furthermore, tariffs on the existing \$250 billion worth of Chinese goods are to be raised from 25% to 30% on October 1, 2019, and from 10% to 15% on \$300 billion worth of remaining goods. The trade war between the world’s two largest economies intensified recently. President Trump stated that Chinese manufacturing would “crumble” if the country did not agree to the United States’ trade terms, as newly released data showed his trade war was washing back to American shores and hurting the factories that the president has aimed to protect.

Central banks buying

Central banks across the globe have been buying larger quantities of the precious metal, a phenomenon not seen since 1971. Emerging markets (EMs) such as Russia, Turkey, Kazakhstan and Poland have been big buyers of gold last year. Central bankers are attracted to gold because no one knows how the ongoing trade disputes will be resolved.

According to the council, net buying by central banks reached 145.5 tonnes in the first quarter of 2019. That’s 68 per cent increase over last year. Also, it was the most gold central banks bought in the first quarter since 2013. Russia and China led the buying, with the former snapping up 55.3 tonnes and latter purchasing 33 tonnes. Monthly purchases from the People’s Bank of China have averaged 11 tonnes over the past four months.

Highest level of H1 purchases since central banks became net buyers



Source: Metals Focus, Refinitiv GFMS, World Gold Council

Iran tensions

Since the U.S. withdrawal from the Iran nuclear deal last year, there has been an increasing tempo of attacks and alleged threats, from unmanned aircraft flown by Tehran's and Washington's allies in the region. The U.S. military nearly launched airstrikes against Iran after a U.S. military surveillance drone was shot down in June. Israeli aircraft then buzzed over Beirut after allegedly losing two drones hours earlier, raising the risk of a wider conflict between it and the Lebanese militant group Hezbollah. This May, the U.S. sent nuclear-capable B-52 bombers, fighter jets, an aircraft carrier and additional troops to the region over what it described as threats from Iran. Meanwhile, a suspected Israeli strike in Iraq last month targeted a base of Shiite militias allied to Iran – in what would be the first attack to be carried out by Israel in Iraq since 1981. Iranian President Hassan Rouhani has ruled out holding any bilateral talks with the United States and threatened to further cut commitments to the country's crumbling nuclear deal with world powers within days.

Hong Kong tensions

Hong Kong is one of the most densely populated places in the world is officially the Hong Kong Special Administrative Region of the People's Republic of China. As a special administrative region, Hong Kong maintains governing and economic systems separate from those of mainland China, under the "one country, two systems" designation. The key reason for protests started after Hong Kong's government introduces legislation which would mean residents suspected of a crime could be extradited to China to face trial for the first time. As anti-government protests in Hong Kong push on into their 12th week, Beijing is intensifying "intimidation tactics" on lawyers, journalists, and diplomats travelling to and from the mainland in an effort to contain the gravest threat to Chinese authority in decades. On 18 August, about 1.7 million people attended a pro-democracy rally in central Hong Kong, according to organizers. Though Facebook and Twitter are banned on the mainland, the Party launched a global social-media campaign. Twitter accused China of a "coordinated state-backed" operation "specifically attempting to sow political discord in Hong Kong.

Brexit concerns

Concerns are growing over the possibility of Britain leaving the European Union without a deal. British Prime Minister Boris Johnson is in the midst of a major parliamentary showdown over his bid to take the United Kingdom out of the European Union by an October 31 deadline, with or without a divorce deal. The rapidly unfolding Brexit drama comes in the run-up to a controversial weeks-long suspension of parliament from mid-September until mid-October. Recently rebel and opposition MPs on Tuesday voted in favour of seizing control of the parliamentary agenda for the following day in order to introduce a bill forcing the prime minister to request a Brexit delay until January 31, 2020 - unless legislators approve a withdrawal agreement, or vote in favour of a so-called no-deal departure by October 19.

Tumbling US treasury yields and inversion of yield curve

U.S. Treasury yields tumbled to multi-year lows as the latest escalation in a U.S.-China trade war hit confidence in the global economy and boosted demand for safe-haven bonds. The U.S. 10-year Treasury yield fell to its lowest since mid-2016 at 1.443% recently. The U.S. 2-year/10-year yield curve remained inverted. The yield curve invert a little bit more, especially given that the Fed is not really trying to be super aggressive in their easing thus far, and that raises the risk that you'll see growth and inflation expectations fall a little bit further.

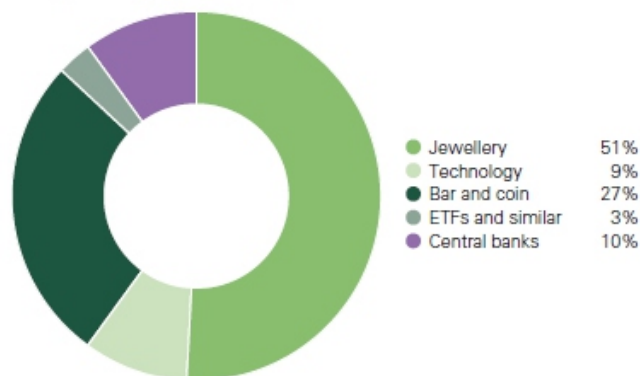
Weekly chart of US 10 year Treasury yield



Source: Reuters

Gold demand by source

(a) 10-year average gold demand by source*



Gold major demand comes from Jewellery which consists of nearly 51% followed by bar and coins demand. Central banks consists of 10 percent followed by ETF demand at 3%.

Inverted yield curve

Historical 10Y-2Y Spread on Treasury Yield



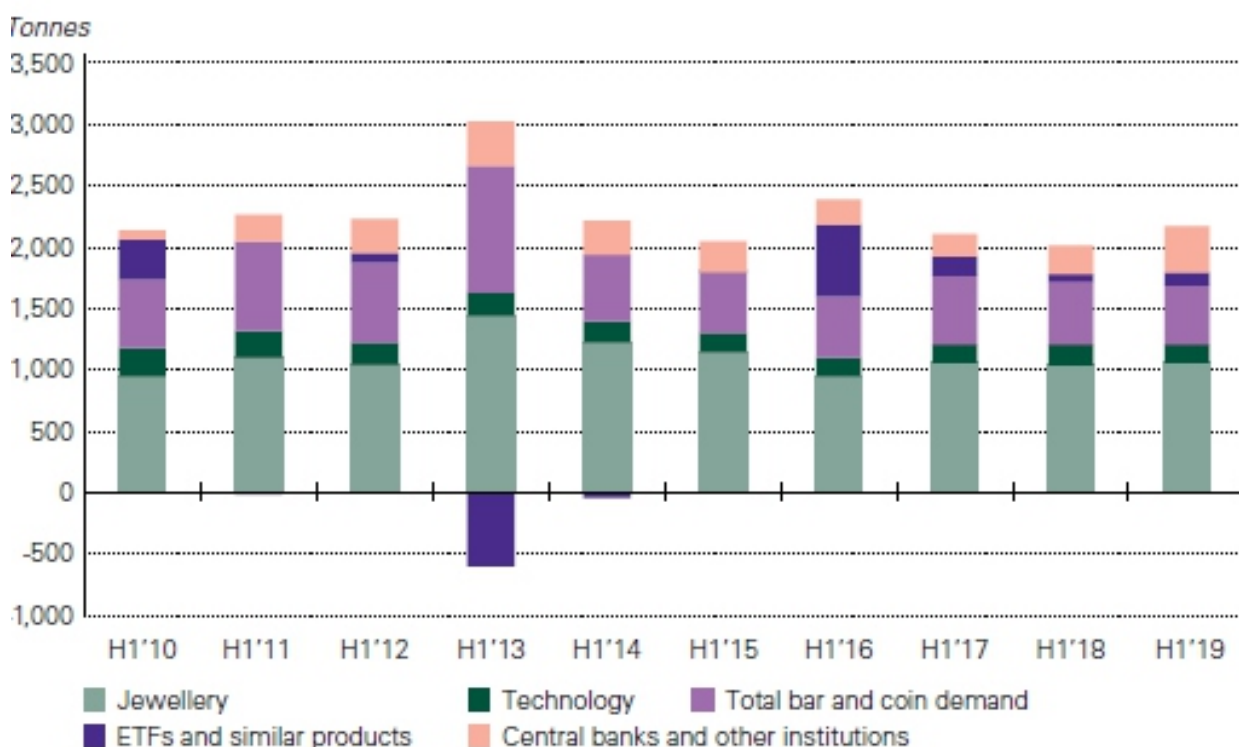
GuruFocus.com

A yield curve inversion happens when long-term bond yields fall below short-term bond yields. That rarely occurs. This yield curve hadn't inverted since 2007, just before the Great Recession. At present the yield curve keeps inverting, flashing a warning sign that a recession could be coming. But the inversion doesn't mean a recession is imminent. Recessions occurred 22 months on average following the past five yield curve inversions, according to Goldman Sachs.

Central bank buying and ETF inflows boosted H1 demand

Gold demand was 1,123 tonnes (t) in Q2, up 8% y-o-y. H1 demand jumped to a three-year high of 2,181.7tonnes, largely due to record-breaking central bank purchases. Central bank buying and healthy ETF inflows were the driving forces behind gold demand throughout the first half of 2019. Growth in H1 jewellery demand was largely the product of a more positive environment for Indian consumers. Shifts in bar and coin investment were very much price-related: as the gold price powered its way to multi-year highs, profit-taking kicked in and retail investment all but dried up. The technology sector reduced its usage of gold due to challenging global conditions, although the outlook is for this element of demand to establish something of a floor over coming quarters. Solid growth in both mine production and recycling fed into a 2% increase in total H1 gold supply.

Gold demand for H1 hit a three-year high, boosted by record central bank buying

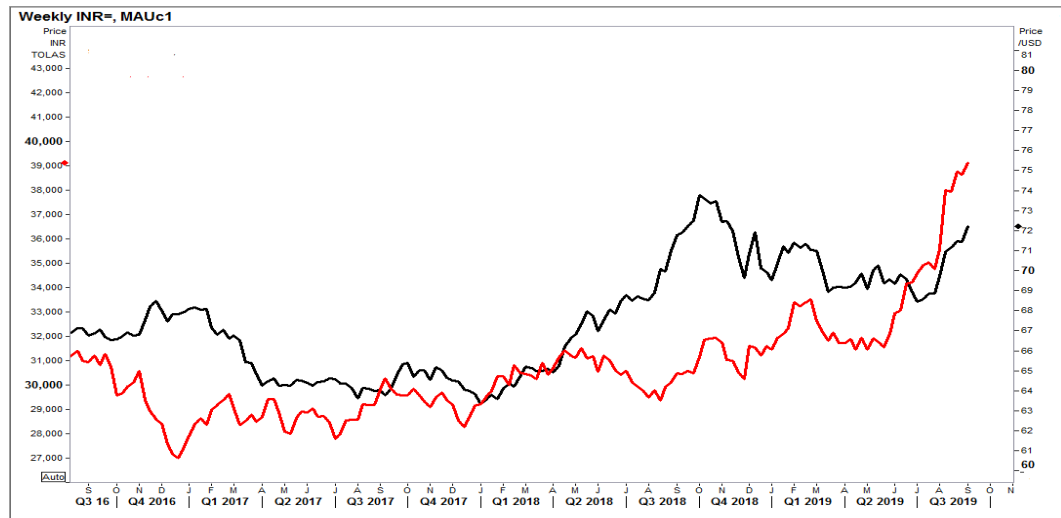


Source: Metals Focus, Refinitiv GFMS, World Gold Council

Rise in import duty by 2.5% can impact physical demand in India

Higher customs duty curbs the outlook for Q3 in India. A contributory factor to the subdued demand in June was an expectation among consumers that the Indian government would announce a reduction in customs duty on gold in its early July budget. As it transpired, these hopes were entirely unfounded: the duty on gold was raised by 2.5%. Retailers ran promotional campaigns to attract consumers – for example, offering discounts on labour charges – but consumers steered clear, wary of the sharp price volatility recently.

Weekly chart of USD INR and Gold

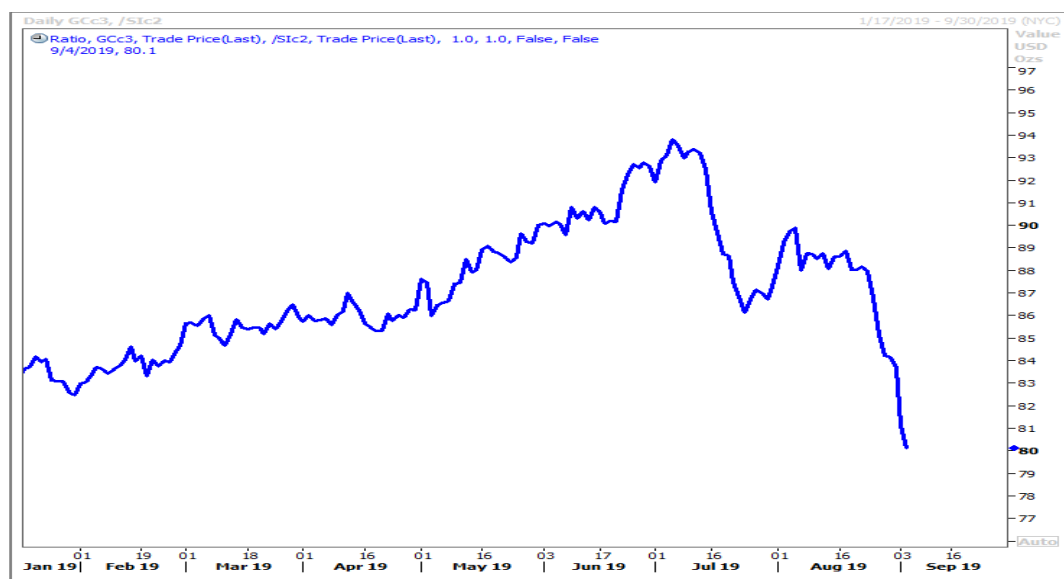


Source: Reuters and SMC research

Analysis: The given chart of USD INR and Gold shows that both has move in tandem with each other. Recently USD INR depreciated sharply towards 72 levels from 69 levels thereby supporting domestic gold prices .Further USD INR can move towards 74 levels thereby assisting gold prices.

Gold and silver ratio has dropped over 12% as silver plays catch up

White metal silver which has been underperforming gold in the recent times has slowly started to catch up with gold. The gold and silver ratio now stands at over 12% lower than its peak in May earlier this year. Silver, as a precious metal, follows gold but 56 per cent of the demand for it, globally, is from industry, with another 21 per cent for jewellery and 18 per cent being investment demand. Silver has been in gold’s shadow for eight years now and that the price ratio between the two rose above 93 in August – a level not seen since 1992. Silver continues to hold its own after breaching \$19.5 an ounce for the first time in two years. Although growing concerns about a global recession could weigh on silver’s industrial demand, which makes up 50% of the silver market.

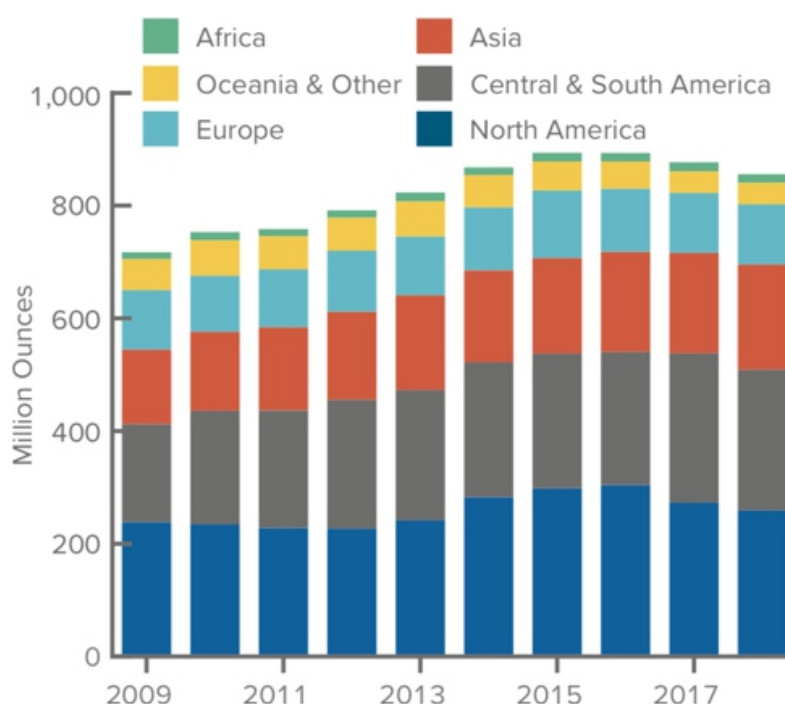


Source: Reuters and SMC research

Silver....Key fundamentals

World silver production hit a 3-year low in 2018 due to a combination of factors, the depressed price being the main reason. Silver is often a by-product of gold and base metal production, and while gold has jumped in price, copper and other base metals have been on the decline. Combined with the recent struggles of silver, all of these were offsetting the positive price action in gold. It's unlikely that silver production is about to reverse course unless the price of silver gets back above \$20 and consistently remains above that level for the foreseeable future. Base metals like copper and zinc also need to reverse higher to impact the silver market.

WORLD SILVER MINE PRODUCTION



Source: GFMS, Refinitiv

Silver mine production declined from top producing countries in Jan-May 2019

According to the mine supply data reported by each country, Peru's silver production is down 10% in the first half of the year, while Chile fell 7% and Mexico was lower by 4% (Jan-May). The total decline in silver production from these three countries in just the first half of the year is 12 million oz (Moz). Peru's silver mine supply for the first half of 2019 fell 216 metric tons, Mexico declined 113 metric tons and Chile lost 44 metric tons versus the same period last year.

Perth Mint's August silver sales jump about 19%

The Perth Mint's silver sales soared 18.7% in August from a month earlier as Silver coin sales surged to 1,171,233 ounces, the highest monthly sales since June 2017. Silver coin demand in the U.S. has been very strong this year; it would not be surprising if the strength of this market is not partially responsible for the impressive (sales) numbers from the Perth Mint.

Weekly Chart of COMEX Gold



Source: Reuters

Analysis:

On COMEX based on price action gold market is in strong Bull Run with some minor correction. The main trend is up according to the weekly swing chart, and it looks like market is not in mood to change the trend to down. Based on current patterns minor support is hold at \$1490 levels whereas price may face resistance near \$1570. Break above \$1570 could target towards \$1630-1650. A sustained move under \$1555.00 will signal that the buying is getting weaker or the selling is getting stronger. The first downside target is the minor pivot at \$1510-1490. Buying on Dips is suggested in counter.

Weekly Chart of MCX Gold



Source: Reuters

Analysis:

MCX gold is in clear uptrend based on weekly chart patterns. Primary and secondary trend in MCX Gold is bullish. Prices are trading well above the previous resistance of 39075 and approached towards 41180. Previous resistance now become the support for counter as long as prices sustain above the support, counter remain in bull trend. Another scenario indicates that if price fell below the level of 39075 then there are chances that the bull may take pause and bear take control and target 37600. Buying on Dips is suggested in counter.

Weekly Chart of COMEX Silver



Source: Reuters

Analysis:

Silver prices are trading in strong uptrend since May 2019. The main trend in Silver is bullish, presently support hold at 18.25, whereas bullish rally could approach 20.72 which is also the resistance for silver. Any correction would be considered as buying opportunity.

Weekly Chart of MCX Silver



Source: Reuters

Analysis:

MCX Silver is in clear uptrend based on weekly chart patterns. Primary and secondary trend in MCX silver is bullish. Prices are trading well above the previous resistance of 48650 and approached towards 52800 in near term. Level of 48650 is now considered as strong support for counter, as long as price stays above the level trend remain bullish and any correction would be considered as buying opportunity.

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