

SPECIAL MONTHLY REPORT ON

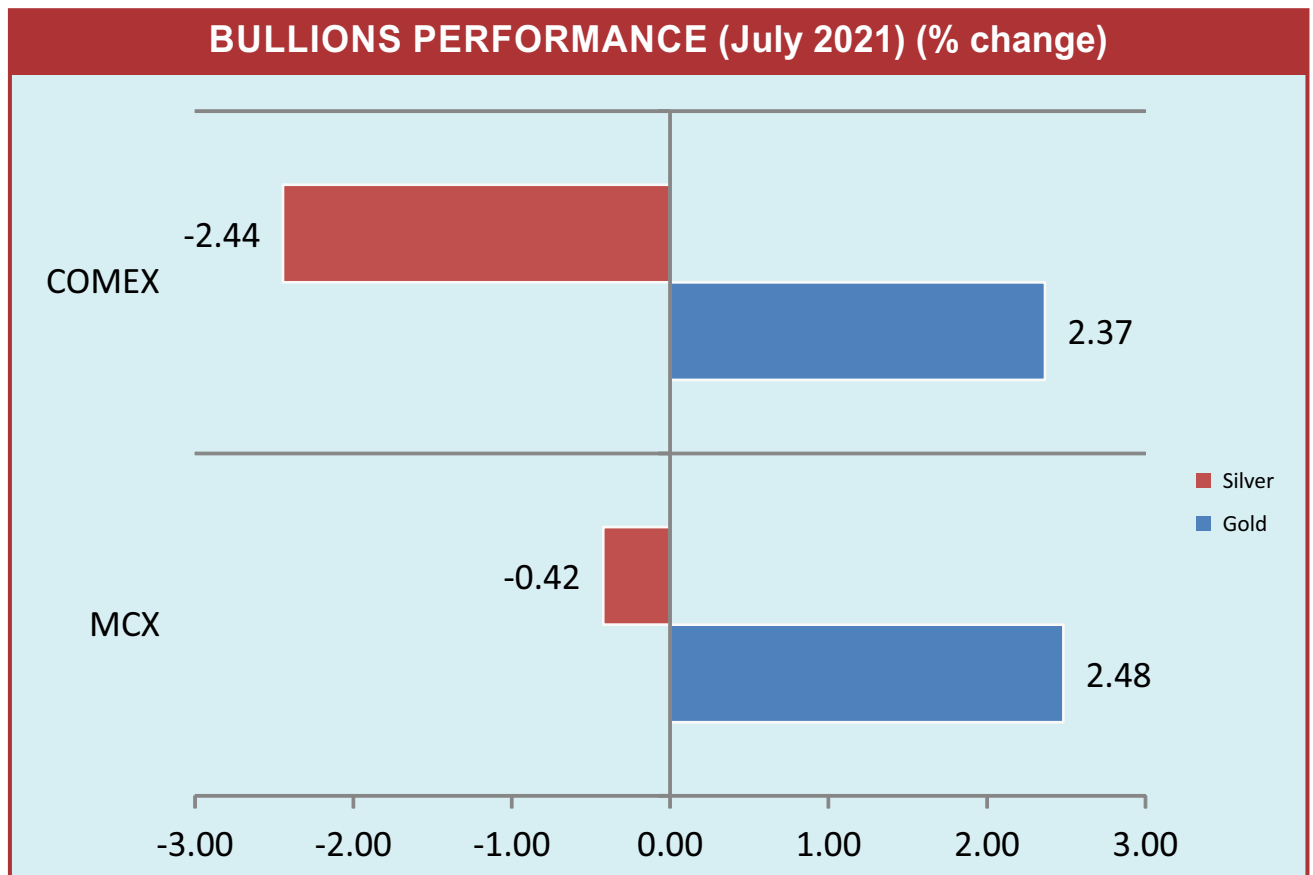
BULLIONS

AUGUST 2021

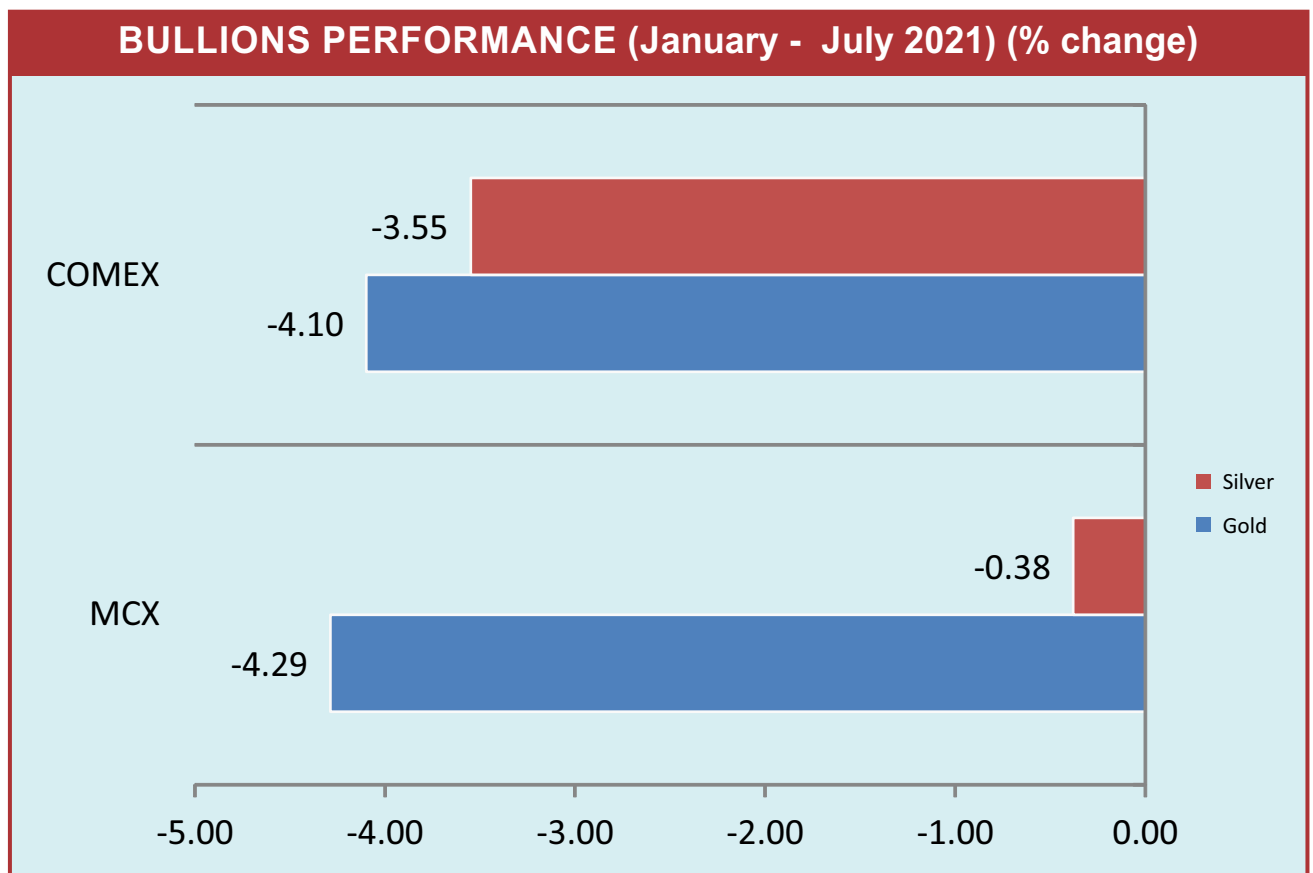


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Source: SMC research & Reuters



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In the month of July, Gold traded mostly sideways with bearish bias but at the end of month prices closed almost 2.5% higher across the board driven primarily by a weaker US dollar. The US dollar index slumped to a 1-month low in reaction to Fed's monetary policy decision. However silver prices could not succeed to close in green on monthly basis. As expected, the Fed kept interest and bond purchases unchanged. The Fed also maintained an upbeat outlook and noted that they were moving towards the start of tapering of asset purchases. The US central bank, however, did not give a clear timeline on tapering of asset purchases easing market nerves. Adding to it, the Fed Chairman noted that interest rate hikes are still distant despite optimism about the US economy. Earlier in June, Fed rattled global markets by projecting the possibility of two rate hikes by 2023.

Outlook

Gold prices may trade in the range with bullish bias. The Fed's decision in last month however shows that the central bank is still in a wait and watch mode. This is justified amid increasing uncertainty caused by the spread of the Delta variant. A number of countries have tightened restrictions in wake of the rising virus cases while the US has also kept travel bans in place and recommended wearing of masks for the unvaccinated. Chinese economic outlook and development relating to the virus situation will also be in focus of markets. For now, gold is still supported by a recovery in jewelry demand, a potentially weakening U.S. dollar, and any other short-term growth bumps. The recent pickup in inflation could also add to gold demand as a better store of wealth. Silver is both a 'safe-haven' asset like gold but also widely used in industry. Silver is poised to benefit from the electrification process because of its use in solar panels, EVs (electric vehicles) and charging points.

Looking ahead in Aug, bullion counter may continue to trade with sideways with bullish bias where we may also witness some short covering from lower levels. Silver is expected to be very volatile and also selling from higher levels is expected.

Major News

- **Fed stance on monetary policy:** Even though daily new coronavirus cases have roughly quadrupled since its 15-16 June policy meeting, the US central bank did not sound unduly worried. The Federal Reserve will likely reduce its monthly purchases of mortgage-backed securities and Treasuries simultaneously when it is time to pare back its support for the US economy, Fed chair Jerome Powell said. The Fed's cautious stance comes also at a time when other central banks like European Central Bank and Bank of Japan have maintained support for accommodative policy to boost growth.
- **Challenges remain about global economic recovery:** Mixed US economic numbers also highlight challenges for the economy. US GDP rose 6.5 percent in Q2 after a downward revised 6.3 percent growth in Q1 however, growth was much less than market expectations of 8.5 percent growth. Concerns about China are high amid economic slowdown, rising virus cases and increasing regulatory crackdown and this pulled Chinese equities to November 2020 lows and market sentiments are unlikely to improve much soon.
- **Rising inflation is a major concern:** Globally, inflation fears have mounted this year on the back of stimulus spending in the US, where inflation in the U.S. rose sharply again in June, with the so-called PCE price index up 0.5%. Separately, data showed consumer spending rose by 1% last month. The delay in tightening could trigger even higher inflation, pushing real interest rates further down. In this case, gold may benefit from higher inflation and lower real interest rates. According to a study by World Gold Council, for every 1% rise in inflation, demand for gold rises by 2.5% and hence the price. Experts say gold should not be bought only when you expect inflation to rise, as no one would be able to time his gold investment with 100% accuracy.
- **Gold buying by central banks:** CENTRAL bankers' appetite for gold is growing, providing a bright spot for the traditional haven. Global reserves expanded 333.2 tons in the first half, 39% higher than the five-year average for the period, according to a quarterly summary from the World Gold Council, which noted strong purchases by Thailand, Hungary and Brazil.
- **Global gold demand:** Global gold demand is almost flat to 955 tonnes for the April-June quarter in 2021 as

Gold Price Movement in MCX



Source: Reuters

Gold Price Movement in COMEX



Source: Reuters

Silver Price Movement in MCX



Source: Reuters

Silver Price Movement in COMEX



Source: Reuters

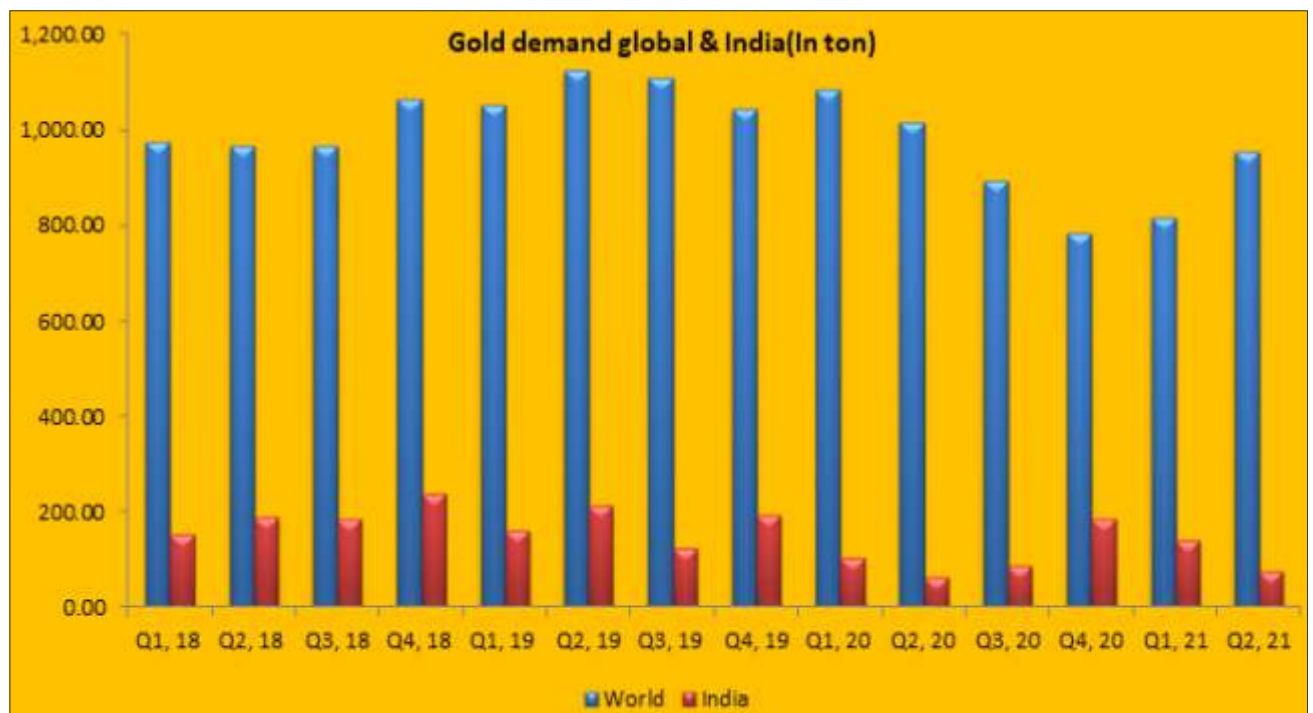
In Aug 2021, Gold may trade in range of 46500-49500 and Silver may trade in range of 65800-70900. On COMEX, gold may trade in range of \$1760-\$1835 and Silver may trade in range of \$24.00-\$27.00.

compare to the same quarter of 2020, as consumers continued to feel the impact of the 2nd wave COVID-19 pandemic. Strong consumer demand recovery and Q2 gold ETF inflows were not enough to offset heavy Q1 outflows. Global gold demand dropped by down 11% y-o-y in H1 to 1,833.1 tonnes, according to the World Gold Council's latest 'Gold Demand Trends Q2 2021' report.

- Jewellery demand (390.7 tonnes) in April-June quarter in 2021 continued to rebound from 2020's COVID-hit weakness, although remained well below typical pre-pandemic levels, partly due to weaker growth in Indian demand. Demand for H1, at 873.7 tonnes, was 17% below the 2015-2019 average.
- However investment demand saw a fourth consecutive quarter of strong y-o-y gains as investors bought gold bars, coins and gold-backed ETFs. April-June quarter in 2021 demand of 243.8 tonnes resulted in a H1 total of 594 tonnes, the strongest since 2013. Modest Q2 inflows into gold-backed ETFs (40.7 tonnes) only partly offset the heavy outflows from Q1; consequently, ETFs saw H1 net outflows (of 129.3 tonnes) for the first time since 2014.
- Total gold supply in April-June quarter this year was 13% higher y-o-y and in H1 was 4% higher. The industry experienced far less COVID-related disruption than in April-June quarter 2020—the most interrupted quarter last year.

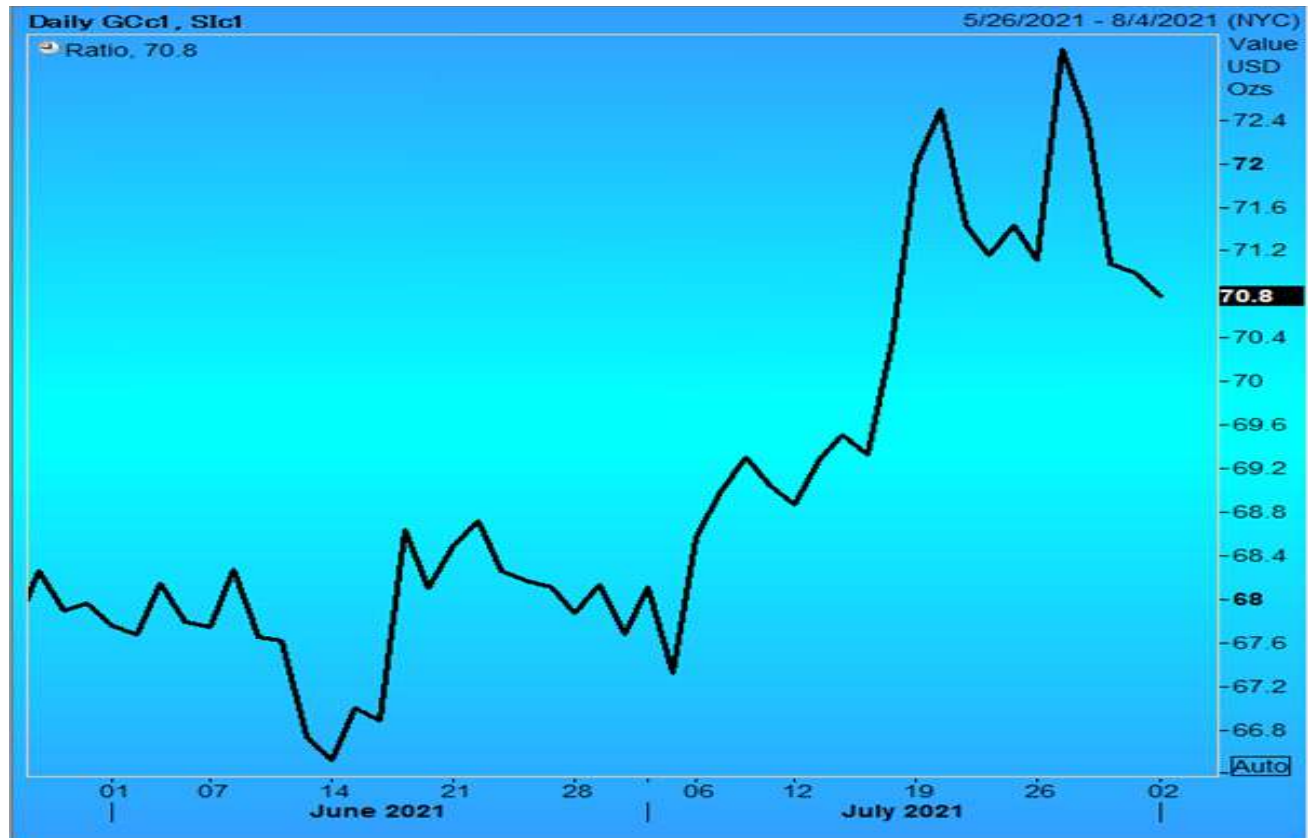
India's gold demand

- India's gold demand increased by 19.2% to 76.1 tonne during the April-June quarter this year, largely due to low base effect, owing to the nationwide lockdown that hit economic activity last year, the World Gold Council (WGC) said in a report. The overall gold demand during the second quarter of 2020 calendar year stood at 63.8 tonnes, according to the WGC's report. In value terms, India's gold demand witnessed 23% growth during April-June quarter at ₹32,810 crore, compared to ₹26,600 crore during the corresponding period of 2020.
- Going forward, gold demand is expected to come back in a big way, however, the consumer confidence and business response are subject to the impact of a looming threat of third wave of COVID and the pace of economic recovery.



Source: WGC

Gold-Silver ratio



Source: Reuters

Analysis: The gold/silver ratio, which measures the number of silver ounces needed to buy an ounce of gold, traded in narrow range of 67.5 to 71 in July. In Aug 2021, it will trade in the range of 68-73.

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