

**SPECIAL MONTHLY  
REPORT ON**

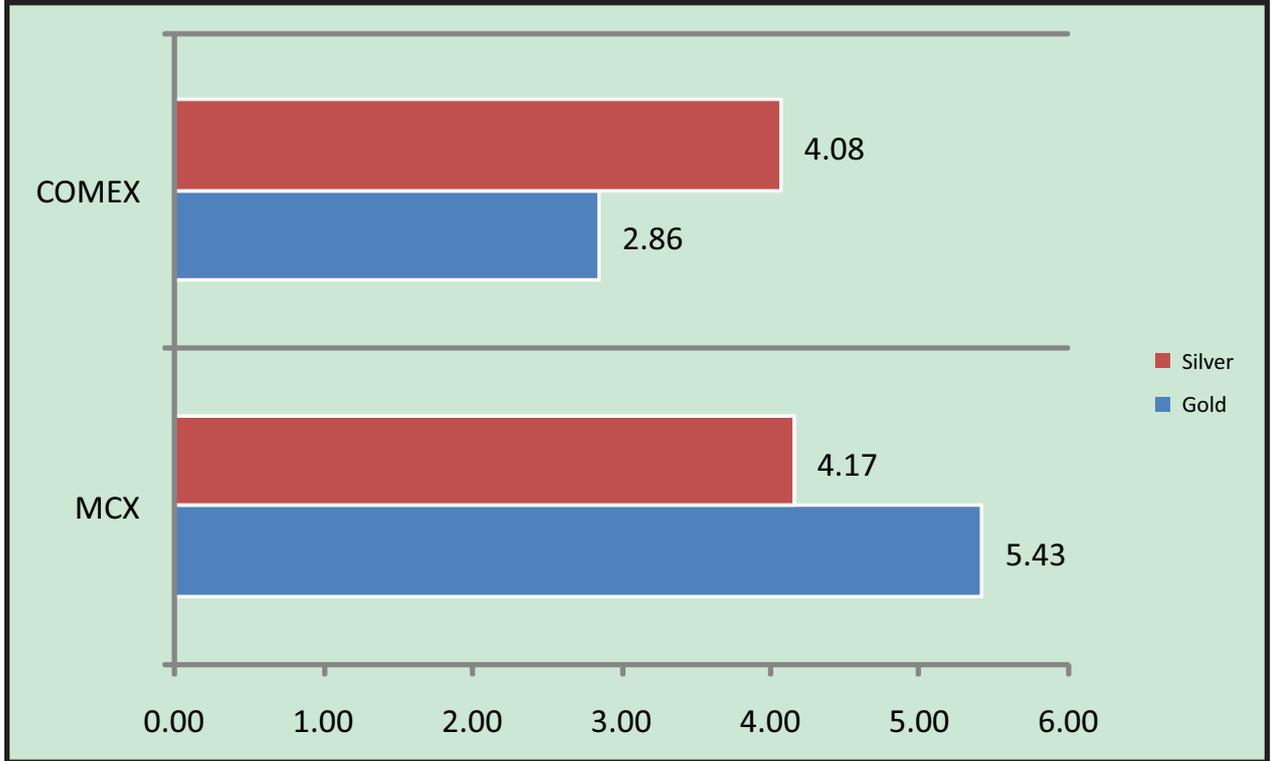
# **BULLIONS**

**FEBRUARY 2019**



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BULLIONS PERFORMANCE (January 2019) (% change)



## BULLIONS

### Overview

In the month of January, bullion counter on domestic bourses traded in green as political uncertainty in Euro zone, Brexit concerns and slowdown in Chinese economy assisted its prices upwards. The recent development in UK has increased chances of Britain leaving European Union without a deal and has also caused political uncertainty. Uncertainty in Brexit is also supporting gold prices on lower levels. UK Prime Minister Theresa May last month narrowly survived no-confidence vote sparked by the crushing defeat of her Brexit deal just weeks before UK leaves EU. World gold council expects increased market uncertainty and expansion of protectionist economic policies to make gold attractive as a hedge while it might face some hindrances from higher interest rates and a strong dollar. But the effects of these factors are expected to be limited as the US Fed has signalled a neutral stance going forward.

### Outlook

Bullion counter can witness further upside as renewed fears about a slowdown, exacerbated by economic data from the US and Japan and the International Monetary Fund's latest downgrade to global growth projections assisted the bullion counter. Uncertainty about Brexit deal and Sino US trade war are another factors supporting the yellow metal market. On the Brexit front, British Prime Minister Theresa May sought to break the parliamentary deadlock over Brexit by proposing to seek further concessions from the European Union on a plan to prevent customs checks on the Irish border. On domestic bourses depreciation in local currency rupee is assisting the prices higher in yellow metal. Rupee can move in range of 69-73 levels in near term. Reflecting investor appetite for gold, holdings of SPDR Gold, the largest gold-based ETF, was at its highest since June 2018. U.S. home sales tumbled to their lowest level in three years in December and house price increases slowed sharply, suggesting a further loss of momentum in the housing market. The Fed held U.S. interest rates steady recently but stated that it would be patient in lifting borrowing costs further this year as it pointed to rising uncertainty about the economic outlook. Gold tends to rise on expectations of lower interest rates, which reduce the opportunity cost of holding non-

yielding bullion, hurting the demand for the U.S. dollar in which the metal is priced. Russia has overtaken China to become the world's fifth largest official sector holder of gold as western sanctions drove buying by its central bank to record highs in 2018. Central banks gold buying will continue to boost the gold prices higher. Central bank gold holdings have grown by a dramatic 13 percent (roughly 3,900 tonnes) since the lows recorded back in 2009 and are expected to grow by another 800 tonnes over the next two years.

**Gold can continue its bullish momentum but some profit booking at higher levels cannot be denied. Overall buying on dips should be the strategy as Gold can test the upside levels of 34500 while taking support near 32500. Silver can test the upside level of near 42500 while taking support near 39500.**

### Key News

#### FOMC statement from January 29-30 meeting

FOMC decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent. The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes. Job gains have been strong, on average, in recent months, and the unemployment rate has remained low. Household spending has continued to grow strongly, while growth of business fixed investment has moderated from its rapid pace earlier last year. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent.

#### Clouds loom over U.S. government shutdown

Despite the partial U.S. government shutdown being placed on hold with everyone back to work on recently, the deal to reopen the government only extends through 15th February. President Trump even made comments that he may double-down on his demand for \$5.7 billion in border wall funding when talks resume this week.

## Global Growth Worries Boost Gold Demand

Concerns over global growth pushed equity prices lower while helping to boost gold prices recently. According to the latest economic data, China's economy grew by "only" 6.6% in 2018, which was the slowest pace since 1990. The slowdown evident in China's growth rate gave gold investors a reason to continue holding bullion based on safety-related factors. It should be noted, however, that China's fourth-quarter GDP matched economists' expectations and didn't surprise on the downside.

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## World Economic Outlook by the IMF

The global economic growth would be 3.5% for 2019 and 3.6% in 2020. The 2019 growth forecast was downward revised from the previous forecast of 3.7%, International Monetary Fund's latest downgrade to global growth projections had sapped appetite for risky assets and assisted bullion prices.

## India's silver jewellery exporters bullish on 2019 demand, hope to explore new markets

Silver jewellery export demand from India is rising and it is expected to remain high in 2019. Exporters of silver jewellery based in India recently explored untapped markets to cover potential demand. Buying from online sales platform has picked up at a fast pace and is anticipated to grow further.

As per data published by the Ministry of Commerce, Government of India (GOI), exports were low in 2014 and 2015 but started showing signs of improvement in 2016 and 17. Last year, there was a sharp decline in exports, because the GOI introduced a Goods and Service Tax (GST) in July 2017 which led authorities to maintain a better vigil. The United States continued to

be the largest importer in the past five years with a total of 617 tonnes, followed by Hong Kong, UK, the UAE and Germany.

Demand from the United Kingdom and the United States has started improving. Previous to this, adequate sales were missing even at low prices. About 18 small and medium silver jewellery companies in India had closed down in the last couple of years because of the decline in demand.

The growth in online sales platform rules out the need for a representative showing catalogs as it is replaced by online pictures and videos. People have now got more avenues to buy because silver jewellery costs less with a variety of designs over gold jewellery.

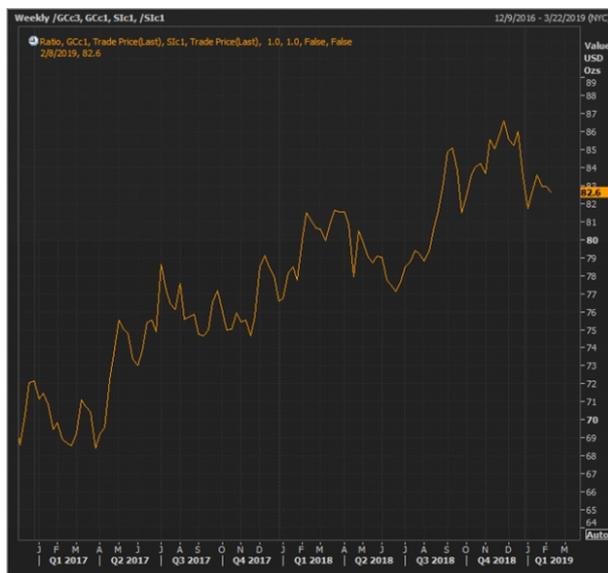
## US Mint 2018 gold coin sales at an 11-year low

Gold coin sales, bullion and other coins, fell for the second consecutive year by 11% to just under 0.5 Moz. Following seven months of annual growth, bullion coin sales at the US Mint ended the year weak, contracting 92% year-on-year to 4,500 ounces in December. Based on Eagle coin sales of 3,000 ounces, December was actually the weakest month of the year with only sales recorded in the 1-ounce denomination; half, quarter and dime Eagle gold coins all recorded no sales in December. Sales of Numismatic and other gold coins also contracted 18% reaching 128,597 ounces. Actual coin sales were higher but our calculation represents actual ounces of demand. This put the total US Mint gold coin sales just shy of 0.5 Moz (or 15 t) in 2018, a decline of 11% compared to last year and the lowest volume since 2005.

## Central banks betting big on gold amid global uncertainty

Central banks across the world seem to be aggressively adding gold to their foreign exchange (forex) reserves. Last year (till November), their net gold purchases stood at 480 tonnes – the highest since 2015, according to data from the World Gold Council (WGC). Following the global trend, the Reserve Bank of India (RBI) has also started adding gold to its reserves, and in little less than a year, the RBI has added nearly 40 tonnes. The share of gold in the RBI's forex reserves rose to 5.9 per cent, taking its total gold holding to 592 tonnes in November.

## Gold Silver ratio



Source: Reuters and SMC research

**Analysis:** Gold silver ratio declined from nearly 86 to below 82 levels as silver outperformed gold. Gold silver ratio can further decline towards 80 levels.

## SPDR Gold trust ETF (SPDR Gold shares)



Source: Reuters and SMC research

**Analysis:** SPDR Gold Shares is one of the top ten largest holders of gold in the world. GLD is the largest ETF to invest directly in physical gold and has an extremely close relationship with spot prices at LBMA. SPDR Gold share ETF can increase towards \$180 in near term.

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