

**SPECIAL MONTHLY
REPORT ON**

BULLIONS

SEPTEMBER 2019

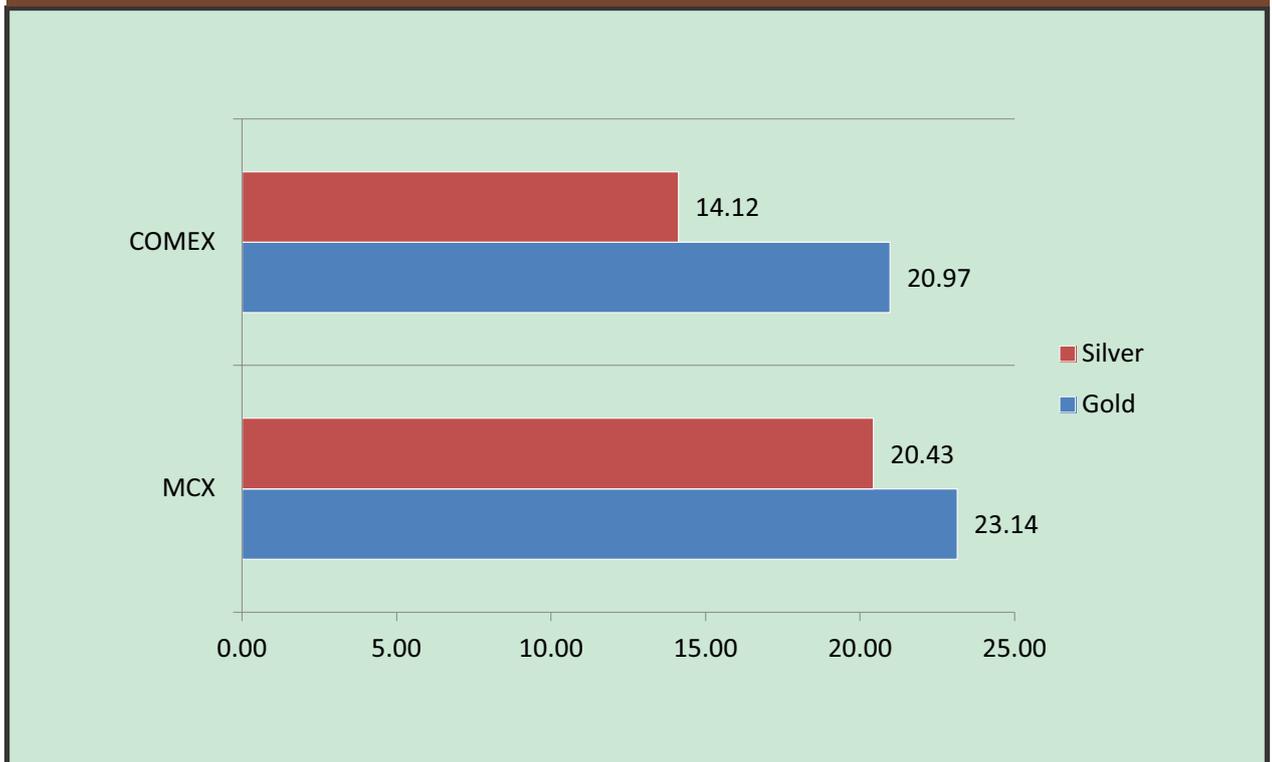


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BULLIONS PERFORMANCE (August 2019) (% change)



BULLIONS PERFORMANCE (January - August 2019) (% change)



Overview

In the month of Aug, yellow metal continued its upside momentum amid surge in safe haven demand due to cocktail of factors like falling US treasury yields and escalating US China trade war. The minutes of US Federal Reserve's July meeting showed policymakers deeply divided over whether to cut interest rates. Some Fed members favored a deeper cut of half a point, while some favored no change at all. Traders mostly expect that US Federal Reserve could go for another 25 basis-point cut in US interest rates in September. Lower interest rates boost the appeal of non-interest yielding assets like gold. Traders mostly expect that US Federal Reserve could go for another 25 basis-point cut in US interest rates in September. Lower interest rates boost the appeal of non-interest yielding assets like gold. Overall gold traded in range of 35025-39425 in MCX and \$1412.1-1565 in COMEX. Silver traded in range of \$16.06-18.76 in COMEX and 40285-47440 in MCX. Gold prices last month surged to their highest in more than six years, surpassing the \$1,550 mark in early trade, before paring gains after Washington and Beijing indicated a ramping down of their trade spat. Donald Trump flagged the possibility of a trade deal with China, and said he believed Beijing was sincere in its desire to reach an agreement. The markets are fully priced for a quarter-point cut in rates in September, and over 100 basis points of easing by the end of next year.

Outlook

Bullion counter may continue to remain on stronger note continuing recent gains on safe haven buying on dovish stance by key central banks, Brexit concerns, tumbling US treasury yields coupled with increased uncertainty regarding U.S.-China trade dispute is keeping the sentiment upbeat. Christine Lagarde, the European Central Bank's next president, stated that the bank still has room to cut interest rates if needed, although this may pose financial

stability risk. The U.S. 10-year Treasury yield fell to its lowest since mid-2016 at 1.443% recently. 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. Silver outperformed gold as gold silver ratio plunged lower from above 90 to 83 recently. 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 FedWatch tool. Concerns are growing over the possibility of Britain leaving the European Union without a deal. In a dramatic move recently Britain's new Prime Minister Boris Johnson set in motion the suspension of the UK Parliament - which means MPs have much less time to debate Brexit, the process of the UK leaving the European Union. Parliament is to be suspended for five weeks ahead of 31 October, the day the UK is due to leave the EU.

Bullion counter can continue its upside momentum in the month of September also. Gold can test 40800 while taking support near 38000-37500 range. Silver can test 55000 while taking support near 48000. While in COMEX Gold can test \$1620 while taking support near \$1480-1460. Comex Silver can test \$21.70 by taking support near \$17.60.

Key News

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.

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 FedWatch 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.

Central banks buying

Central banks across the globe have been buying larger quantities of the precious metal, a phenomenon not been 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.

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.

Brexit concerns

Concerns are growing over the possibility of Britain leaving the European Union without a deal. In a dramatic move on recently Britain's new Prime Minister Boris Johnson set in motion the suspension of the UK Parliament - which means MPs have much less time to debate Brexit, the process of the UK leaving the European Union. Parliament is to be suspended for five weeks ahead of 31 October, the day the UK is due to leave the EU. The UK was originally scheduled to leave the EU on 29 March. After Parliament rejected the deal negotiated with the EU three times, that deadline was extended. Departure day is now 31 October. Mr Johnson, who was one of the key figures in the Leave campaign, has promised to complete Brexit "do or die" - with or without a deal.

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 2,181.7 tonnes, 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 discounts in India narrow but stretch to 12th week

Gold was being sold at a discount for the 12th straight week, with domestic prices soaring. Dealers were offering a discount of up to \$31 an ounce over official domestic prices, down from last week's \$33 discounts. The domestic price includes a 12.5% import tax and 3% sales tax. Jewellers have nearly stopped purchases from banks because they have been receiving a large amount of scrap.

Gold Silver ratio



Source: Reuters and SMC research

Analysis:

Gold silver ratio narrowed from 89 to below 81 recently as silver outperformed gold. This ratio can further dip lower towards 75 in the month of September 2019.

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 move towards \$250-260 in near term.

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