

# SPECIAL MONTHLY REPORT ON **Bullions**

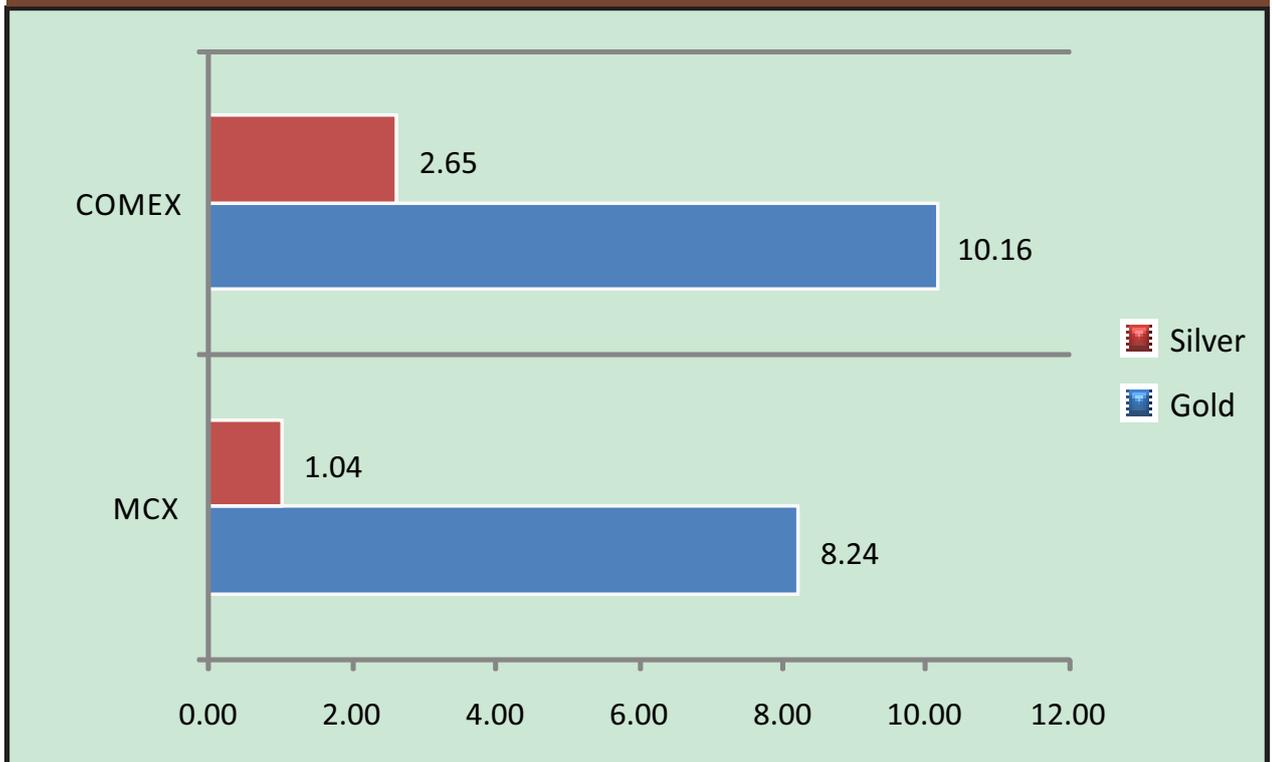
(October 2017)



**BULLIONS PERFORMANCE (September 2017) (% change)**



**BULLIONS PERFORMANCE (January 2017 - September 2017) (% change)**



## BULLIONS

### Overview

In the month of September, bullion counter traded with negative path as stronger greenback and hawkish comments by Federal Reserve kept the prices on weaker note. Meanwhile geopolitical tensions between US and North Korea failed to generate safe haven demand. Overall gold traded in range of 29443-30474 in MCX and \$1278.00-1359.00 in COMEX. Silver traded in range of \$16.64-18.22 in COMEX and 39309-41927 in MCX. Meanwhile stronger dollar index and increasing prospects of a December rate hike by the Federal Reserve curbed appetite for the metal. The Fed's announcement on another interest rate hike this year took markets by surprise as a series of poor inflation readings had dampened expectations for such a step. The Fed kept rates unchanged but will start unwinding its balance sheet starting October. The possibility of a December rate hike remains open and Fed fund futures indicate a 64% probability of a rate hike at the end of this year. The 2018 dot-plot was unchanged with most members expecting 3 rate hikes next year. Geopolitical tensions have capped the downside to some extent. Subdued physical demand from India, during Dusshera festival also dampened the sentiments of the gold. World Gold Council (WGC) data showed that gold demand slumped 14% to 2,003.8 tonnes in the first half of 2017, the lowest level in eight years.

### Outlook

In the month of October bullions may remain under selling pressure as stronger greenback and fear of interest rate hike in US political uncertainty in US and geopolitical tensions between US and North Korea can support the prices higher. The gold/silver ratio can move in range of 70-79 in near term. On domestic bourses the movements of local currency rupee will be the key factor to watch out which can move in range of 64-66.5 in the month of October. Last month Indian rupee slumped to the lowest level since March pressurized by increased concerns about health of the economy along with weakness in equity market and rise in greenback. **Gold can trade in range of Rs 28500-31000 in MCX and \$1230-1330 in COMEX. Silver can trade in range of 38000-41000 in MCX and \$16-17.5 in COMEX.** President Donald Trump proposed the biggest U.S. tax overhaul in three decades, offering to cut taxes for most Americans but prompting criticism that the plan favors the rich and companies and could add trillions of dollars to the deficit. Janet Yellen continued to bat

for gradual rate hikes which reinforced odds of a December hike which are now near 81% compared to 71% earlier. Meanwhile, the US dollar has risen sharply on increased expectations of Fed's interest rate hike and optimism about US economy amid proposed tax reforms by Trump administration. China's net gold imports via its main conduit Hong Kong plunged 55 percent month-on-month in August to the lowest level since January as higher domestic prices dented demand.

### Key News

#### Geopolitical tensions between US and North Korea

Investors will also be closely watching the developments in terms of tensions between the US and North Korea. US President Donald Trump issued a familiar warning to North Korea, saying the US is prepared to use "devastating" military action if necessary. North Korean Foreign Minister Ri Yong Ho claimed US President Donald Trump had "declared a war" on his country, and threatened to shoot down US aircraft flying off its coastline even if they were in international airspace.

Last month United States flew B-1B bombers from Guam in international airspace to the east of North Korea, in response to Pyongyang's "reckless behavior." US maintains sufficient aerial surveillance and radar capability in the region to know if any military aircraft take off from North Korea.

#### Hawkish comments by fed kept prices under pressure

In a widely expected move, the Federal Reserve kept interest rates unchanged in last month meeting and announced a timeline for reducing its \$4.5 trillion balance sheet. The Federal Open Market Committee unanimously voted to hold the federal funds rate between 1.00% and 1.25% and begin the process of shrinking its balance sheet by October.

Projections for the total number of expected rate hikes in 2017 remained unchanged with one more quarter-point raise this year. Officials also forecast three rate hikes in 2018, with the rate reaching 2.9% in 2020, just above its long-run goal of 2.8%. Gold is highly sensitive to interest rates and returns on other assets, as rising rates lift the opportunity cost of holding non-yielding bullion.

The Fed's expectations for GDP growth increased slightly to 2.4% in 2017, hitting the long-run goal of 1.8% by 2020. Meanwhile short-term forecasts for core PCE inflation fell to 1.5% this year, but officials predict it will rise to 2% by 2019.

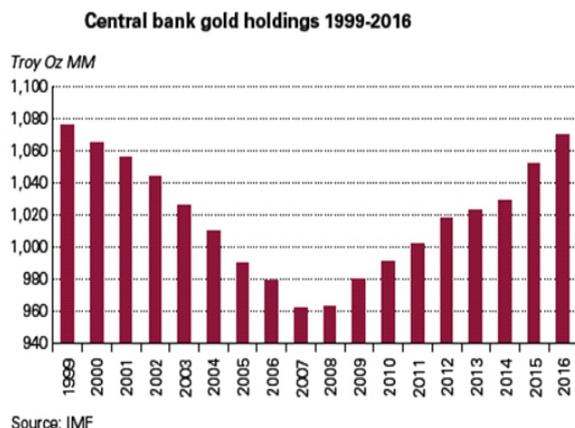
## Slump in China gold imports

In physical demand, China's net gold imports via main conduit Hong Kong plunged 55 percent in August from the previous month, data showed.

## Russia is not only the largest official buyer of gold, it is also a leading producer

Gold is one of the most effective investment assets in the long run. Russian production has almost doubled since 1995 and today, Russia ranks third on the list of global producers, behind China and Australia. In the past ten years alone, the country has mined more than 2,000 tonnes of gold, with production of more than 300 tonnes expected this year, rising to 400 tonnes by 2030. Today, Russia is a prominent player in the global gold market, both on the supply and demand side. It is the world's third largest producer, with a 200-year history of gold mining, and the most significant official purchaser of gold.

## Central bank gold holdings



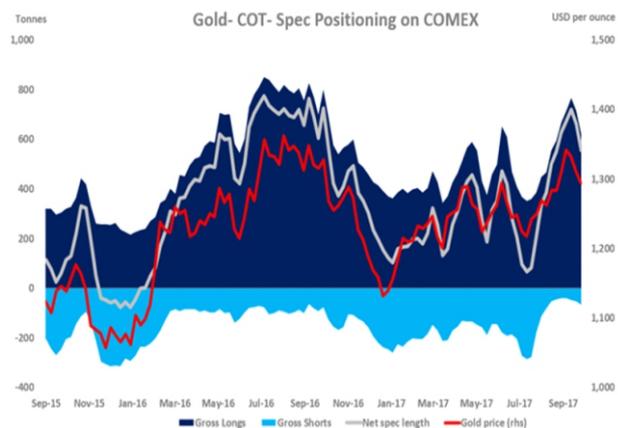
The changing role of gold can be seen in the trend of central bank holdings. As the US dollar became the accepted currency for global settlements, central banks shifted from gold to US government obligations. Following 2007, however, the "risk free" status of US bonds began to erode due to quantitative easing, questions around fiscal sustainability and domestic politics. While still considered credit-risk free, government bonds no longer met the objective of capital preservation in real terms, as yields turned negative. In response, central banks sought to diversify across currencies, financial assets and gold.

## Government tax regulations to check Indian gold demand

With Goods and Services Tax (GST), demonetisation and Anti-Money Laundering (AML) regulations coming into effect, gold demand can decline this festive season. The government has brought the gems and jewellery industry under the purview of Prevention of Money Laundering Act, which in turn has increased compliance requirements. The new indirect tax regime (GST) was rolled out across the country on July 1, in which the yellow metal came in the three per cent bracket.

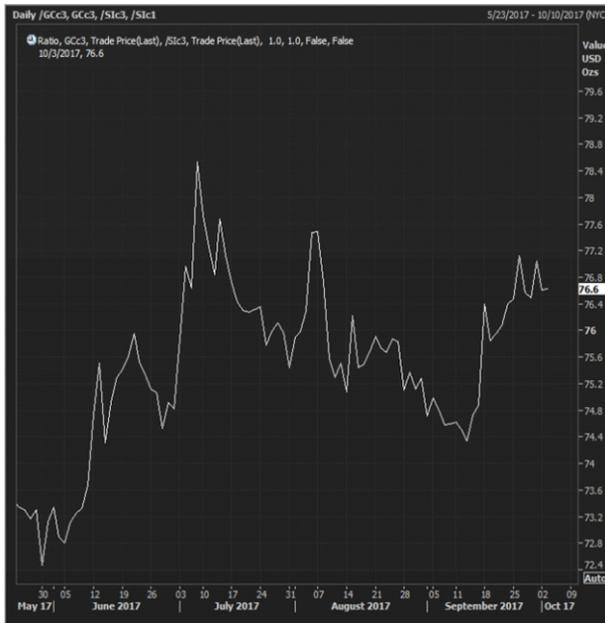
Demand for gold in India for the second quarter (April-June) 2017 was at 167.4 tonnes, up by 37 per cent compared to overall Q2 demand of 122.1 tonnes for 2016, WGC data showed recently. The total jewellery demand in India for Q2 2017 was up by 41 per cent at 126.7 tonnes as compared to Q2 2016 (89.8 tonne). The value of jewellery demand was Rs 33,000 crore, up by 36 per cent from Q2 2016 (Rs 24,350 crore). The WGC has put India's yellow metal demand for this calendar year between 650 tonnes and 750 tonnes.

## Latest CFTC Report



**Analysis:** According to the latest Commitment of Traders (COT) report provided by the CFTC, money managers cut their net long position for a second week in a row over the reporting period (September 19-26). The net long fund position - at 555.58 tonnes as of September 26 - dropped 106.04 tonnes or 16% from the previous week (w/w). This was driven mainly by long liquidation (-92.42 tonnes w/w) and reinforced further by fresh selling (+13.62 tonnes w/w). The net long fund position in gold remains substantially up 432.64 tonnes or 352% in the year to date.

### Gold Silver ratio



Source: Reuters and SMC Research

**Analysis:** Gold silver ratio hovered from 74.4 to 77 in the month of September. This ratio can hover in range of 73-78 in the month of October.

### 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 has declined drastically as it declined below \$122 when gold fell below \$1300.

### Gold and Dollar index correlation



Source: Reuters and SMC Research

**Analysis:** Gold and dollar index inverse correlation has strengthened in the past few months as it hovered near -0.70 levels.

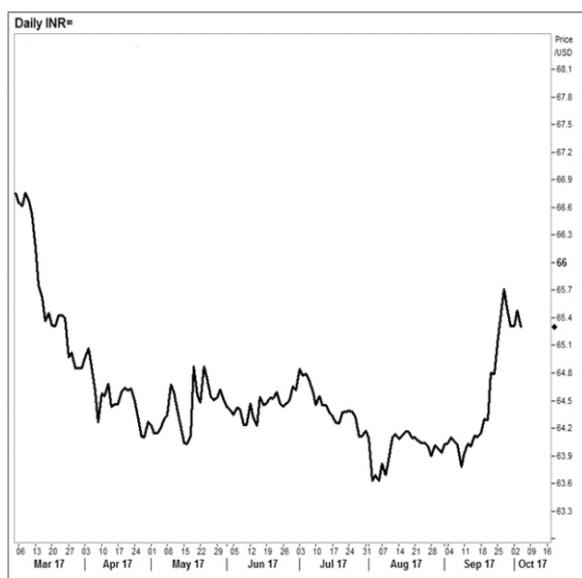
### Weaker Rupee capped the downside in domestic Gold and silver

In the month of September gold prices plunged more than 3% in COMEX but ended on flat note in MCX while silver fell by more than 4.5% in COMEX while it dropped less than 1% in MCX. The main reason for this disparity is that domestic currency rupee weakened amid concerns over weak economic growth and uncertainty over the government's implementation of reform measures which hit foreign investor sentiment. Local currency rupee which was at 63.9 in the beginning September weakened towards 65.5 in third week of September. India's economic growth slowed to a three-year low of 5.7 percent in the June quarter, prompting the government to plan several steps including fiscal stimulus which would push the fiscal deficit wider than budgeted.

*In the month of October 2017 bullions may remain on volatile path as fear of interest rate hike in US, geopolitical tensions between US and North Korea, physical demand in India and China along with movement of greenback will give further direction to the prices. Moreover movement of local currency rupee coupled with ETF demand will also influence its prices.*

Range	
Gold	MCX 28500-31000 Rs per 10 gms
	COMEX \$1230-1330 per troy ounce
Silver	MCX Rs 38000-41000 per kg
	COMEX \$16 -17.50 per ounce

### USD INR Chart



Source: Reuters and SMC Research

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