IMV Commodity Report: Gold

From Research Desk

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Scrip	Recommendation	Entry	Stop loss	Target
Gold	Sell Gold or Gold Mini	Below 28900	30700	28200--27600--27400

*Read complete report and levels

IMV Commodity Research Desk

Sunday, 13 November 2016

Global gold demand weakens – Prices drop to four weeks lows.

Globally gold has emotional, cultural and financial value, which supports demand across generations. Gold is fashioned into jewellery and used to manage risk in financial portfolios and protect the wealth of nations; it is found in smart phones, and cutting-edge medical diagnostics. These diverse uses for gold, in jewelry and technology and by central banks and investors, mean that across the decades different sectors in the gold market have risen in prominence at different points in the global economic cycle. This self-balancing nature of the gold market means that, typically, there is a sustained base level of demand.

Gold prices dropped to fresh four-week lows on Friday, as market sentiment continued to improve amid growing optimism surrounding the effects of a Trump presidency on the U.S. economy. Demand for the safe-haven precious metal weakened as investors began to think that a Trump presidency may not be as bad for financial markets as initially expected. Market participants were especially hoping to see Trump's policies boost spending and inflation in the U.S. Donald Trump was declared the 45th U.S. President on Wednesday, confounding expectations for a Democratic victory. Gold was also hit by a stronger dollar, after the U.S. Department of Labor said on Thursday that initial jobless claims decreased by 11,000 to 254,000 in the week ending November 5. Analysts had expected jobless claims to drop by 5,000 to 260,000 last week. The U.S. dollar index, which measures the greenback’s strength against a trade-weighted basket of six major currencies, was down 0.18% at 98.60, just off Thursday’s two-and-a-half week highs of 99.08. A stronger U.S. dollar usually weighs on gold, as it dampens the metal's appeal as an alternative asset and makes dollar-priced commodities more expensive for holders of other currencies.

Demand Scenario

Global gold demand amounted to 993t in Q3 2016 (-10%), as high gold prices discouraged consumers. ETPs were the only bright spot during the quarter, with 146t of inflows helping to counterbalance weak demand elsewhere, notably in jewellery (-21%), bars and coins (-36%) and purchases by central banks (-51%).

A third successive quarter of growth in ETPs brought cumulative inflows to 725t in 2016 so far. Negative interest rate policies and political uncertainty – linked to the looming Presidential vote in the US and the prospect of European elections next year – were the key factors driving these inflows. In contrast, year-to-date bar and coin demand of 664t was 13% weaker year-on-year.

In 2013 China became the world’s largest gold market, accounting for around a third of global gold demand. By the end of 2017, we expect demand to have grown by at least a further 20%. Because of its sheer size and impact on the global gold market, China is firmly in the spotlight.

	Q3'15	Q3'16	5-year average	Year-on-year change
	Tonnes			
Demand				
Gold demand	1,104.8	992.8	1,120.5	↓ -10%
Jewellery	621.6	493.1	580.1	↓ -21%
Technology	82.8	82.4	88.9	↓ -1%
Investment	232.4	335.7	311.4	↑ 44%
Total bar and coin	295.8	190.1	316.8	↓ -36%
ETFs and similar products	-63.4	145.6	-5.4	- -
Central banks and other institutions	168.0	81.7	140.1	↓ -51%
Consumer demand in selected markets				
India	271.2	194.8	209.8	↓ -28%
China	233.8	182.5	252.2	↓ -22%
Middle East	68.1	44.0	77.1	↓ -35%
United States	57.3	43.6	45.8	↓ -24%
Europe ex CIS	72.9	50.3	80.6	↓ -31%
Supply				
Total supply	1,127.2	1,172.7	1,116.6	↑ 4%
Total mine supply	865.6	831.8	775.0	↓ -4%
Recycled gold	261.6	340.9	341.6	↑ 30%
Gold price				
LBMA Gold Price (US$/oz)	1,124.3	1,334.8	-	↑ 19%

Over the first six months of 2016, the gold price rose by almost 20%. Several factors are favorable for the gold price and prominent investors expressed their renewed interest in gold. What price can we expect for 2017 and beyond?

While the gold price measured in U.S. dollars fell by about 12% in 2015, the first half of 2016 saw a strong rise of the price per ounce by about 20% – to above 1260 by mid of June.

The actual market price of gold is formed by demand and supply factors. Gold demand stems from four areas:

1. Jewellery
2. Investment
3. Central banks
4. Technology

These factors will determine demand for gold also in 2017. The actual demand from each area can either be positive, i.e., support the price of gold, or negative, when more gold is sold than purchased. In the latter case, when the total holdings in one category decrease the resulting supply becomes available to other demand sectors. Gold recycling describes the process of recycling gold from technology components or jewellery and supplying it to the new uses.

According to the World Gold Council, overall demand for gold in 2015 was about the same as in 2014. Jewelry took with 57% of total demand the largest share. Annual demand from jewelry was down by about 3%. Reasons for this decline were lower demand from Turkey, China, Russia and the Middle East – due to political challenges and economic weaknesses, also because of falling oil prices.

Investment demand was the second largest gold demand factor in 2015 and accounted for about 21% of total demand. Total investment demand increased by 8% compared to 2014.

While the demand for physical gold investments in the form of bars and coins was more or less flat, demand from gold-backed securities improved significantly: The outflows from those instruments decreased by nearly 30% – but net demand for gold exchange traded funds and similar products was still negative.

Reasons for the improved overall investment demand were the political turbulences, e.g., in terms of Russia and Turkey, economic threats like the UK potentially exiting the Eurozone or a revival of the crisis in Greece and an economic slowdown in markets such as the US and China.

The third largest driver of demand were the central banks: They accounted for 14% of total demand for gold. In 2015, demand from central banks increased only slightly by about 1%. But the total demand from central banks was very close to its all-time high in 2013. It is obvious that central banks continue to diversify their assets. Significant buyers of gold were the central banks of Russia and China, which are diversifying away from the U.S. dollar.

Finally, demand for technological applications like electronics and dentistry was down by 4.5% in 2015. But technology demand only accounts for about 8% of total demand for gold. The decline of demand for gold for technological purposes is in line with the long term trend.

Turning to supply from mines and recycling, total supply decreased by 3.5% in 2015. Mine production grew at the lowest annual rate since 2008, while gold recycling hit the lowest volume since 2007, shrinking by about 7%. The reason for this weakness was the low price of gold in 2015.

Looking at the first few months of 2016, the demand for gold was very dynamic. In the first quarter of 2016 demand rose strongly by 21%. The Investment demand rose by over 200%! The driver for this rise was an exploding investment demand for gold-backed securities. Just within one quarter all the outflows of 2014 and 2015 were recouped with inflows of 364 tonnes of gold into exchange traded funds and similar instruments.

The much higher demand for gold investments surpassed the declining demands from the other areas by far. In the first quarter, jewelry demand declined by 27%. This development reflects rising economic uncertainties and rising gold prices as well as special factors such as an increase of duties and taxes on gold and the jewelers strike in India.

Brexit aftermath:

Gold climbed to its highest in over two years on 24 June, its safe-haven appeal burnished in the face of tumultuous global markets as fallout mounted from Britain's decision to leave the European Union.

Spot gold touched it's highest since March 2014 at $1,364.80. It surpassed the $1,358.20 an ounce mark hit on June 24 in the immediate aftermath of the Brexit vote. Stocks on major world markets fell and benchmark US government bond yields hit all-time lows on Tuesday as worries about Britain's exit from the EU pushed sterling to a fresh 31-year low.

Trump's Victory And Gold Prices: What Does It Mean For Precious Metals?

If there is one thing markets hate it is uncertainty. And as Trump will be the first US President without prior government experience to step into office, the outcome is certainly giving markets plenty to worry about.

This volatility is certainly extreme, but what is a precious metals investor to make of these wild gyrations? Was this a one-time blip for gold, or is there something more in the works?

Gold's surge and then rapid retracement after Trump's victory comes at a critical technical level for the precious metals.

After bottoming during the crash of 2008 at just under $700 per ounce, gold then rose to over $1,900 by September of 2011. Since that time, and despite the 26% gain during the first half of 2016.

This downtrend began with the $1,900 2011 high, and was hit again in 2012 at $1,800, and then again multiple times just this last summer between $1,345 and $1,375 after the Brexit vote.

Effect of interest rate hike??

Price of gold is ultimately not a function of interest rates. Like most basic commodities, it is a function of supply and demand in the long run. Between the two, demand is the stronger component. The level of gold supply only changes slowly, since it takes 10 years or more for a discovered gold deposit to be converted into a producing mine. Rising and higher interest rates may in fact be bullish for gold prices, simply because they are typically bearish for stocks.

It is the stock market rather than the gold market that typically suffers the largest outflow of investment capital when rising interest rates make fixed income investments more attractive.

Higher bond yields also tend to make investors less willing to buy into stocks that may have significantly overvalued multiples. Higher interest rates mean increased financing expenses for companies, an expense that usually has a direct negative impact on net profit margins. That fact only makes it more likely that rising rates will result in devaluations of stocks.

With stock indexes at or near all-time highs, the stock market is definitely vulnerable to a significant downside correction. Whenever the stock market declines significantly, one of the first alternative investments that investors consider transferring money into is gold.

Indian PM declares Rs 500, 1000 notes to be invalid;

In order to curb corruption, make efforts to recover 'black' or unaccounted money and use it for schemes for the welfare of the poor, Prime Minister (PM) Narendra Modi has declared that from midnight of November 8, 2016, currency notes of Rs 1000 and Rs 500 denomination will not be legal tender. People can deposit notes of Rs 1000 and Rs 500 in their banks from November 10 till December 30, 2016. However, he said that all notes in lower denomination of Rs 100, Rs 50, Rs 20, Rs 10, Rs 5, Rs 2 and Re 1 and all coins will continue to be valid.

After the government's surprise decision the monetary authority posted a 25-point detailed FAQs (frequently asked questions) explaining the rationale behind the move. The Reserve Bank of India (RBI) has said that the most important reason for the ban was the abnormal rise in fake currencies of higher denomination and also the higher incidence of black money in the system, but it assured the public that a person who changed higher value cash will get exactly the equal amount in lower denominations up to Rs 4,000 in cash irrespective of the size of tender and anything over and above that will be receivable by way of credit to bank account as the scheme of withdrawal of old high denomination notes does not provide for it.

Explaining the importance of the scheme, the RBI said that the legal tender character of the notes in denominations of Rs 500 and Rs 1,000 stands withdrawn. In consequence, the withdrawn old high denomination notes cannot be used for transacting business and/or store of value for future usage. The scheme will close on December 30, 2016 until then one can exchange the banned notes at the branches of commercial banks, regional rural banks, urban cooperative banks, state cooperative banks and special RBI counters. And those who failed to do will be offered a limited opportunity at specified offices of the RBI, along with necessary documentation as may be specified by the central bank.

Demonetisation Impact on India

In major cities, sale of gold massively increased on 9 November with an increased 20 to 30% premium surging the price as much as to ₹40,000 from the ruling price of ₹31,900 per 10 grams. As a combined effect of demonetisation and United States presidential election, the share markets saw drop in stocks of software industry and real estate but slight improvements in the banking sector.

Major highway toll junctions on the Gujarat and Delhi-Mumbai highways also saw long queues as toll plaza operators refused the old banknotes. Nitin Gadkari, the Minister of Transport, subsequently announced a suspension of toll collections on all national highways across India until midnight of 11

November and later extended until 14 November. Income Tax departments raided various illegal tax-evasive businesses in Delhi, Mumbai, Chandigarh, Ludhiana and other cities that traded with demonetised currency.

Harmonised with the motive of fighting black money problem, the Ministry of Electronics and Information Technology announced that it would be launching a common e-platform to facilitate monetary transactions with various state and central government offices. The scarcity of cash due to demonetisation has led to chaos and long queues at ATMs and banks across India.

The State Bank of India reported to have received more than ₹30,000 crore in bank deposit in first two days after demonetization. The move also crippled Naxalite financing through money laundering.

Large sum of cash were seized in different parts of the country. Bag of burnt notes was found in Uttar Pradesh following demonetisation.

Effect - With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to reduce in the short run. To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money and hence money supply will decrease permanently. However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up.

As the money supply is expected to reduce in the near term and the demand for the gold expected to fall as there will be less money supply and reduction in purchasing power of money is expected.

Technical Aspect

Gold

As you all know that we are bearish in gold from 30000 mark. Recently it made a high of 31376 on event day but unable to sustain and crashed vertically. Below 30000 our target was 29700---29550 and then to 28900 mark. It made a low of 29250 and weekly settled at 29396. RSI and MACD too are in the negative zone along with it 21DEMA and 55DEMA is at 30040 and 30340 respectively.

Gold formed head and shoulder pattern on weekly chart. It already breached its support level of 29550 and could test 29050---28900. Three consecutive closes + weekly close below 28900 will see sharp downside panic in gold till 28200---27600 and then to 27000 mark else it could test its resistance level of 29600---30000 again. Further upside rally will see only close above 30000 mark.

Close above 30000 will see a dead cat bounce in Gold till 30300---30550 and then to 30800 again. If Gold unable to breach its support level of 28900 then we will expect sharp upside move in it. So traders remain cautious in gold as it is trading close to its make or break level.

Here chances are bright for downside move in gold but trade with levels only. Positional traders can sell gold or gold mini below 28900 and add more lot on every rise of 400---500 points with stop loss above 30700 for the downside target of 28200----27600—-27000.

On Comex Division Gold has support at $1210 -- $1160 and resistance at $1240, below $1210 it could test $1170--$1160. Further downside panic will see only close below $1160 and if it unable to breach its support levels of $1210 or $1160 then we will expect sharp upside move in it. INR will play key role in volatility. So traders remain cautious while trading and be cautious in gold at upper levels. Dollar index to trading close to 99.00. Hurdle at 100. Weekly close above100 will see sharp upside move in it for the upside target of 102---103.50+ mark. Above 100 it could test 108---112 mark too and finds major support at 95---93.50. Trend looks highly positive which is negative for yellow metal. So traders remain cautious and trade with levels only

Silver

Silver too made high of 44700 on the event day but unable to sustain and too crashed vertically. On Friday we recommended selling in Silver for the downside target of 42200---41800. It made a low of 41899 and settled on weekly basis at 42194. Silver find crucial support at 41800 and resistance 43500---44450. Close below 41800 will take to 41200---40500 and then to 39500 mark in days to come. RSI and MACD too are in the negative zone along with it 21DEMA and 55DEMA is at 43056 and 43595 respectively. Any sharp rise will be selling opportunity in Silver around 42800---43500 with stop loss above 44450 for the downside target of 41200---40500 and then to 39500 mark.

On Comex division Silver has support at 17.00 and resistance at $17.80—$18.30. Close below $17.00 will take it to $16.30--$15.80 and then to $15.00 else could touch resistance level of $17.80---$18.30. Chances are bright for downside move in it. So be cautious at upper levels.

Crude Oil

Support at 2880 and resistance at 3070

Break and close below 2880 will see take it to 2830—2790 and then to 2720 mark in days to come else could test its resistance level of 3070. Fresh buying only if closes above 3070. Traders can trade in a rage with levels only and wait for confirmation

Copper

Support at 360---345 and resistance at 425

Last week we have seen sharp upside move in copper. It made a high of 405.20 and slipped again to settle at 374.65 on weekly close. This week we will expect high volatility in copper. Chances are bright for a new high till 410----425 but don't jump for positional buy at higher levels. Overall trend is positive but we will wait for next two weeks movement in Copper. We will expect range bound trading in Copper for next two weeks with high volatility. Buy on dips with in and out strategy is good trading range. Don't jump to buy Copper at higher levels. Have patience and try to buy in panic around 345 mark only. More levels and updates will provide during market hours.

Source –

www.investing.com,

www.gold.org,

www.rbi.org

World Gold Council

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