Special report on

GOLD

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Gold

Overview and outlook

After a sharp downtrend that began in 2011, the yellow metal has made a resounding comeback in 2016. Prices surged to more than two year highs and had the best first half in almost a decade. Faltering Chinese economy, gloomy global macro-economic environment, rising ETF demand, low interest rate policies of the major central banks and political and economic uncertainty caused by Brexit were the major drivers of gold prices in H1 2016.

The extended sideways price action of the summer months has, however, given way to sharp fall in the fourth quarter, after the stellar gains in the first half. So at first sight, the current landscape looks unreliable for gold prices in Q4 2016, with erosion of $1,300 per ounce support in COMEX and 30000 in MCX. However, the yellow metal is now witnessing a price-wise correction and there are still a host of factors which could support the prices higher in months ahead.

The US rate hike

The constant debate and grief surrounding the US rate hike has dented the sentiments for gold recently. However, the fact that path of monetary tightening by the Fed is going to be gradual is a positive factor for prices in the long run. While it is known that rising interest rates have a bearish effect on gold prices, as it increases the opportunity cost of holding gold, but other factors also play their part in driving prices even when interest rates tend to rise. Normally, prices react negatively to expectations of an imminent rate hike but after the rise in interest rates, they tend to bottom out and start to recover. Recalling the most recent trend, gold prices were pushed in to negative territory in 2015, amid concerns over the first rate hike in almost a decade but went on to record a momentous run in 2016, right after the Fed pulled the trigger in Dec'15. In present scenario also, with prices having already discounted one rate hike this year, the yellow metal is likely to embrace that and eventually garner buying interest.

The US Presidential elections

The political uncertainty surrounding the US Presidential elections is seen as the next big catalyst for prices after the British referendum 2016, which took the financial markets by surprise, but favored gold for its safe haven appeal. If Trump wins the Presidential elections, there will be noticeable changes in American politics. If he is elected, it will arouse uncertainty about the effects of his policies on the US economy .This can offer an upwards thrust to prices. The US Presidential race is a close call, where odds of Trump's win may be underestimated by the polls, but only time can tell what's in store.

ETF and physical demand

Following the above-average monsoon in India, we have the ongoing festival and upcoming wedding season and gold demand in India is expected to increase in 2016-17 over the previous September to August crop season. This would help reverse weak second-quarter jewelry demand trend in India, as the current phase of correction would again attract buyers at lower levels. ETFs demand has remained strong and stole the show in H1 2016 as per the WGC, with inflows into the sector at 579.2 metric tonnes in the six-month period, compared with cumulative outflows of 616.1 metric tonnes over the preceding ten quarters.

Increasing physical demand in China

Shipments of gold from Switzerland to China increased to 35.5 metric tonnes in September from 19.9 tonnes in August, according to figures from the website of Swiss Federal Customs Administration.

Indian Sovereign Gold bonds scheme

The sixth tranche of Indian Sovereign Gold bonds scheme will remain open for subscription till November 2, 2016. The nominal value of these bonds was fixed at Rs 3,007 per gram. However, the government decided to offer a discount of Rs 50 per gram, so that the effective issue price works out to Rs 2,957 per gram. The bonds will be issued on November 17, 2016. They will have tenure of eight years and will allow exit from the fifth year. The interest rate on this tranche has been reduced from 2.75 per cent earlier to 2.50 per cent of the nominal value.

Future Price action

The year 2016 began with glitter coming back to gold. A glance at the price chart shows the spark in the counter in the beginning of the year but prices fell sharply recently. While global prices have tumbled 8 percent from the highest in more than two years in July to below $1,250 an ounce recently, they are still up almost 20 percent this year as central banks extend bond-buying and keep interest rates at low or negative levels in an effort to stimulate growth. Investors have boosted holdings in bullion-backed exchange-traded funds by 40 percent this year to the largest in three years. Good rains this year also offer some hope for jewelers as rising incomes boost rural purchases, which make up 60 percent of consumption.

Looking forward, we believe the price dip will offer a good buying opportunity for consumers and long-term investors. In the environment of higher uncertainty, gold has an important role to play in the portfolios of investors.

Comex Gold can take support near $1213-1242 in medium term (3-6 Months) and MCX Gold can take support near 28500-29300 and then can recover towards 30600-31500 while Comex gold can recover towards $1340-1380 levels.

Retail investors can accumulate gold in various forms like Coins, Gold ETF, Gold Bonds or jewellery.

MCX Gold Weekly Price chart

Source: Reuters and SMC Research

Key Support Zone: 28500-29300

Key Resistance Zone: 30650-31500

COMEX Gold Weekly Price chart

Source: Reuters and SMC Research

Key Support Zone: $1213-1242

Key Resistance Zone: $1346-1383

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Vandana Bharti	**(AVP - Commodity Research)**	**Boardline : 011-30111000 Extn: 625**	**vandanabharti@smcindiaonline.com**
Sandeep Joon	**Sr. Research Analyst (Metals & Energy)**	**Boardline : 011-30111000 Extn: 683**	**sandeepjoon@smcindiaonline.com**

E-mail: researchfeedback@smcindiaonline.com

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Dheeraj Sagar, 1st Floor,
Opp. Goregaon sports club, link road
Malad (West), Mumbai - 400064
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
"Poddar Court", Gate No. 4,
4th Floor, Kolkata - 700001
Tel: 91-33-39847000, Fax: 91-33-39847004