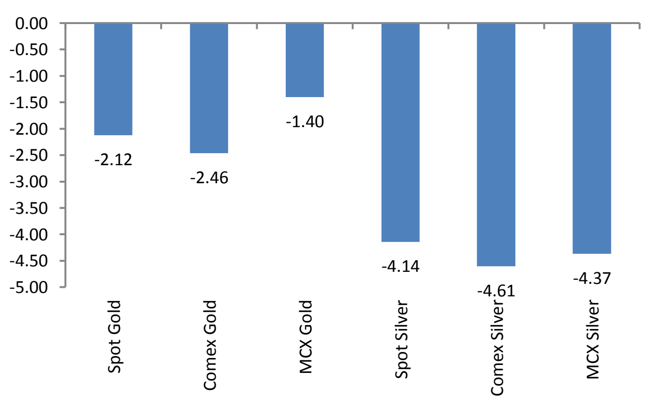
Gold

Price Performance

In June 2017, Comex gold prices declined by 2.5 percent while silver prices declined by around 4.7 percent in the international markets. On the MCX, gold prices declined by 1.4 percent while silver declined by 4.5 percent in the same time frame.

In the first week of June, Comex gold prices rallied from $1260/oz to around $1290 per ounce, while gold prices trended downwards for rest of June and headed towards $1240 mark by the end of June. On the other hand, Comex silver prices rallied from $17.24/oz to $17.7 per ounce in the first week of June and then trended downwards for rest of the month towards $16.5 per ounce mark.

Price performance of precious metals in June 2017 (%)



Source: Reuters, Angel Commodity Research

On the MCX, gold prices made a high of around Rs.29585 in June and then corrected towards Rs.28300 mark by the month end. Silver prices made a high of around Rs.40800 per kg and then headed lower towards Rs.38200 mark in the same time frame as mentioned above.

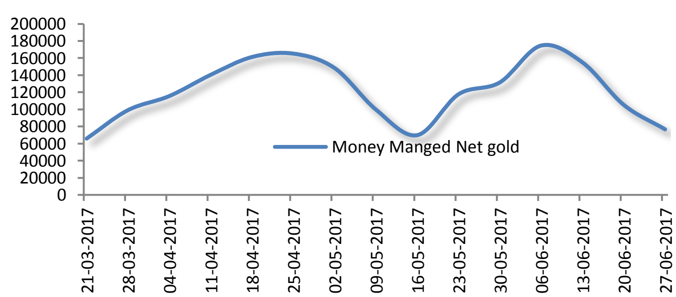
Although prices have traded lower for most of June, gold prices are up nearly 8 percent in the first half and are little changed from where it ended in March. Comments from the euro zone, British and Canadian central banks indicated that quantitative easing programs in place since the financial crisis may be being wound up, leading to a gradual normalization of interest rates.

Prices trended downwards for most of June in anticipation of the rate hike by the US FED in its meeting which was scheduled on 13-14th June 2017. The FED actually hiked the rates by 25 bps to 1-1.25 percent and the talk of normalization of balance sheet size of $4.5 trillion relatively sooner is what led to the fall in gold.

It clearly means that the extra liquidity which was infused by the Fed for so long will no longer be there in the system as they prepare for gradual unwinding of the balance sheet. Increasing probabilities of rate hikes in the US in 2017 as well as 2018 and unwinding of the FED balance sheet spells trouble for gold prices to move higher. US economy is improving, bringing optimism and growth story back on cards for investors across the globe to cheer about. In this scenario, investors will remove all their money from safe haven assets and move towards risk assets which in turn will lead to fall in the prices of precious metals.

Rising interest rate scenarios, weak investment demand, and optimism about the US economic growth and hints from leading central banks to end the era of easy money policy spells trouble for gold prices. Although, dollar index is standing at nine month lows, it is not really offering any support for precious metals.

Money managers are losing interest in gold very recently



Source:Reuters, Angel Commodity Research

The chart above clearly signifies the losing interest of money managers in gold as they continue to dump gold since past few weeks and will continue to do so in the coming weeks as well.

The other trouble as far as Indian markets are concerned is the GST on gold. The speculation over the Goods and Service Tax rate on gold and diamond Jewellery is finally over with the government finalizing the rate at 3 percent, while the import duty (custom duty) of 10 percent stays, which will be over and above the 3 percent. However, at present, the total levy on gold would be around 13 percent (10% customs duty + 3% GST), effectively an increase of around 1 percent than the industry expectations of the 12 percent. For healthy development of trade, GST should ideally be less than or equal to 12 percent. Effectively, this would result in an increase in jewellery prices of gold, silver, and diamonds, however marginal it will be. This additional cost will be passed on to the consumers.

Outlook

Rising inflation in the US and prospects of rate hike by the central banks has dimmed prospects for any rally in the precious metal counter in the near term.

Besides, weak investment and physical demand are creating an environment of prices to further go down in the international as well as domestic markets.

ECB hinting its tightening monetary stance is also further indication that the central banks are now progressing at a faster pace to reduce the liquidity that they created in order to boost economic growth.

GST in India would be game changer in the long run, however, short term distortions towards the complexity of the tax structure will lead to slow demand for gold in the near term.

We expect gold prices to trade lower towards $1180 mark in the near term, while MCX gold price (CMP: Rs.28400/10gms) is headed lower towards Rs.27400 mark.

Technicals

On the above monthly price chart of Gold, it is clearly seen that prices are trading towards south ward from last couple of months after making a recent high of 29785 levels in the month Feb 2017. Broadly, as per the technical prices chart formation prices had made a “Lower Top Lower Bottom Formation” which is basically a bearish chart structure. Prices have also formed “Bearish Candlestick pattern” last month which indicates further bearishness.

As per the moving average, prices are trading below its 9 and 27 EMA (monthly basis), which indicates negative trend in the prices. Technical indicators 9 months RSI and MACD both are showing negative trend in the prices.

Support could be seen at 27800 – 27600 ($ 1200) Levels and then strong support is seen at 27000 / 26800 ($ 1168) levels. Resistance could be observed at 29500 – 29700 ($ 1285) levels and then strong resistance at 30000 – 30200 ($ 1315) levels.

Looking towards bearish candlestick chart pattern and indicators showing negative trend, we recommend sell in Gold.

Sell MCX Gold between 28900 – 29000, SL – 29700, Target – 27600 / 27400

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