



Weekly Digest

KCSPL Research

MARKET ANALYSIS

- MCX Gold August contract trades near Rs.28500/0 gram after a marginal 0.1% gain last week. Gold hit the lowest level since Jan earlier this month but has now bounced back to 4-week high. The sharp volatility in international price has affected domestic price as well. Domestic price has underperformed lately due to strength in rupee and slack domestic demand. Rupee has moved towards 64 levels amid general sell-off in US dollar and position squaring ahead of RBI which is expected to cut interest rate. Choppiness in rupee and spot affected gap between domestic and international prices. Gold was trading at a discount of nearly \$5/oz on Friday as against premium of near \$2/oz a week ago. There is lot of uncertainty relating to GST but the impact may ease down in coming days. Government has imposed a GST of 3% on gold which will replace 1% VAT and 1% excise. The net tax liability will increase with GST however it may not be significant to affect demand to a great extent. World Gold Council however believes that GST and limit on cash transactions could affect demand. In last few months we have seen higher imports. Higher stocks and slack monsoon related demand may keep domestic price at a discount. Market players are also looking at proposal for new gold policy which aims at uniform pricing and standardization. IBA has submitted a draft policy which will be discussed. Rupee outlook is also keeping domestic price under pressure.
- COMEX gold hit a low of \$1204/oz earlier this month, the lowest level since mid-March but has witnessed a sharp rebound to test a high of \$1270.8/oz today, the highest level since 14 June. Gold fell sharply as central banks aligned towards monetary tightening resulting in a sharp surge in bond yields. Price however rebounded as central bank maintained cautious tone on inflation denting expectations about aggressive monetary tightening. This resulted in a correction in global bond yields. Gold's sharp rise in last few days was supported by weaker US dollar and choppiness in equity market and bond yields. The US dollar index weakened amid market expectations that the policy gap between Fed and other banks will narrow. Fed has already raised interest rate multiple times but there is uncertainty about future stance owing to weaker inflation and concerns about Trump administration. Fed last week kept interest rate unchanged but expressed concern about weaker inflation. Mixed data added to uncertainty. Meanwhile, Canada has already raised interest rate, Bank of England will discuss interest rate hike in coming months while ECB plans to further reduce bond purchases in coming months.

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- To exemplify, the yield gap between US and German 10-year bond yield was 1.747% as against 1.732% a week ago. Gold yields no interest and higher interest rate increased opportunity cost of holding the metal. Global central banks infused huge liquidity in last few years to help economic recovery. With stability in major economies the next step for central banks is to move toward policy normalization. However, no central banks want to act in a rush and destabilize currency and financial market. In the near term focus will be on ECB and BOE stance. ECB plans to reduce its bond purchases but no action is likely before September. BOE has begun talks on interest rate hike but Brexit remains a cause of concern. Higher yields will also reflect in higher borrowing costs which will affect economic activity. Overall, the shift in central bank' stance to monetary tightening is negative for gold however no central bank is likely to act in a rush. Also central banks stance will cause volatility in currencies. Concerns about Trump administration also increased gold's appeal as a safe haven asset. Trump is under focus due to debate over healthcare bill and ongoing investigation on Russia's role in 2016 elections.
- COMEX Silver trades near \$16.7/oz after a 1.4% gain. Silver rose along with gold and most industrial metals on weaker US dollar. ETF outflows however shows weaker investor interest in silver. Silver ETF holdings hit record high level earlier this month with price dropping below \$16/oz but buying interest waned. Continued mixed trade in gold and industrial metals could dissuade silver buyers. Focus will continue to be on US and Chinese economic outlook.

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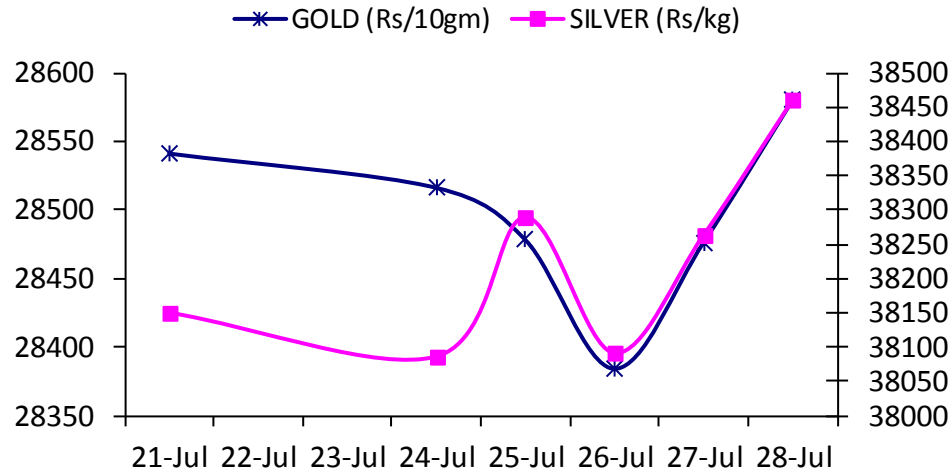
FUTURES (24th July to 28st July 2017)

CONTRACT	EXCHANGE	QUOTE	CLOSE	CHANGE	% CHANGE	HIGH	LOW
GOLD AUG	COMEX	USD/OZ	1268.4	13.5	1.1	1270.0	1243.2
SILVER SEP	COMEX	USD/OZ	16.695	0.238	1.4	16.810	16.225
GOLD AUG	MCX	RS/10GM	28580	39	0.1	28610	28304
SILVER SEP	MCX	RS/KG	38460	310	0.8	38699	37652

SPOT

COMMODITY	QUOTE	CLOSE	CHANGE	% CHANGE	HIGH	LOW
GOLD	USD/OZ	1269.6	14.66	1.2	1270.9	1243.9
SILVER	USD/OZ	16.757	0.237	1.4	16.823	16.252

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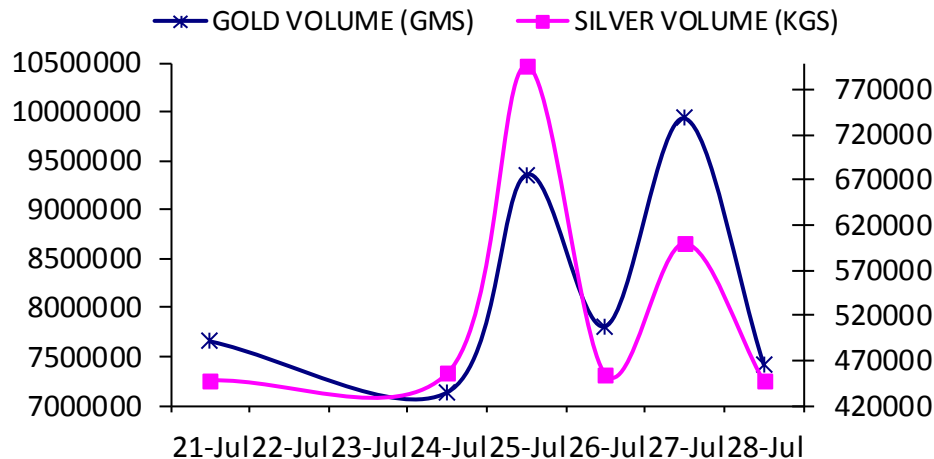
MCX Gold Silver Price Movement

MCX Gold and MCX Silver ended higher last week tracking cues from international exchange. Indian rupee’s marginal appreciation against the US dollar limited gains in domestic market.

MCX Gold August contract rose 0.1% while COMEX gold surged 1.1% and tested the highest level since mid-June. Gold gained support from continuing weakness in US dollar and choppiness in equity market and bond yields. Mixed economic data, Fed uncertainty and concerns about Trump administration kept pressure on US dollar. Yields turned choppy amid varying outlook for monetary policy of major central banks. ETF outflows however showed weaker investor interest. Rupee gained 0.3% amid general sell-off in US dollar and position squaring ahead of RBI decision. As on Friday, MCX Gold Aug. contract was at a discount of about \$5.5/oz to international prices as against \$2/oz premium a week ago. Slack demand and position squaring before contract expiration widened the gap.

MCX Silver rose 0.8% last week as COMEX Silver gained 1.1% and rupee appreciated against the US dollar. Silver rose along with gold on weaker US dollar. ETF outflows however showed weaker investor interest. MCX silver price continues to trade at a marginal premium to international prices. Premiums have been largely steady post GST imposition.

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MCX Gold Silver Volume Trend

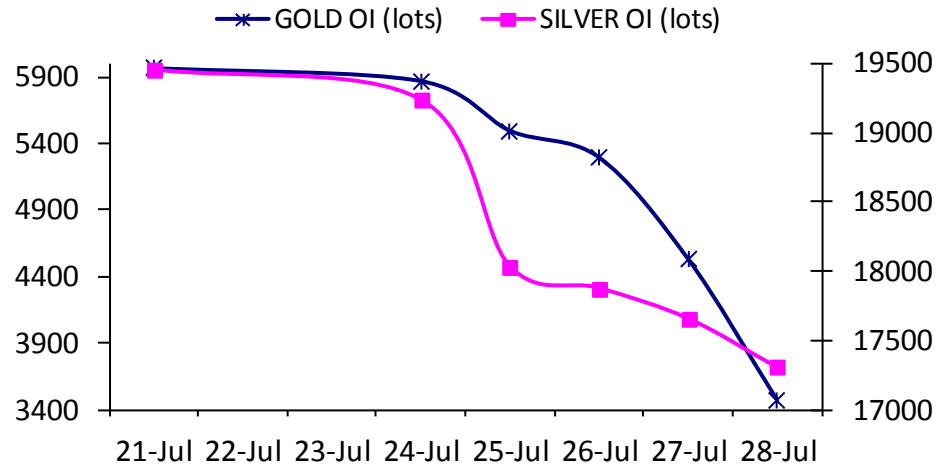
Trade volumes for MCX Gold August contract and MCX Silver September contract wavered last week along with price but dipped marginally over the week.

Trade volume for Gold August contract fell by 3% and topped on Thursday. Volume for October contract rose as market players moved to August contract.

Trading interest in MCX Silver September fell by 0.2% and topped on Tuesday. The drop in trade volumes show slack of conviction that the recovery may sustain.

MCX Gold August contract traded in a range of Rs.306/10 gram (Rs.28304-28610/10 gram). MCX Silver September contract traded in a range of Rs.1047/kg (Rs.37652-38699/kg)

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MCX Gold Silver Open Interest Trend

Open interest for MCX Gold August contract fell from 5965 contracts to 3472 contracts, a decline of 41.8%. Oct. contract OI rose from 1927 contracts to 3925 contracts. The shift in OI from August to October contract was due to position squaring ahead of expiration of August contract. The spread between August and October contract widened to near Rs.250/10 gram from Rs.210/10 gram a week ago.

OI for MCX Silver September contract fell from 19456 contracts to 17305 contracts, a decline of 11.1%. OI fell as price edged up which indicates short covering in the market. However, trade volumes were generally lower indicating lack of conviction about recent rebound.

The sharp rebound in gold and silver price in last three weeks has been largely due to short covering. We are yet to see fresh buying in the sector. Buying may emerge only if there are fresh factors to push price higher. Focus in the near term is on US economic data and Trump.

INVESTMENT INTEREST

Gold and Silver gained last week however ETF outflows show weaker investor interest. Gold holdings with SPDR ETF fell by 21.88 tonnes to 791.8 tonnes, lowest since Feb. Silver ETF holdings rose to record high levels however buying interest waned at higher levels. Holdings with iShares ETF fell by 138.2 tonnes to 10658.5 tonnes. ETF investors may not consider buying unless there is a fresh positive trigger for prices.

ETF HOLDINGS					
COMMODITY	FUND	28-Jul	21-Jul	CHANGE	% CHANGE
GOLD	SPDR	791.875	813.759	-21.88	-2.7
SILVER	ISHARES	10658.47	10796.67	-138.20	-1.3

SPECULATIVE POSITION

Gold rose above \$1250/oz as speculators raised net long position for the first time in seven weeks. As per US CFTC report for the week ended July 25, non-commercial traders for gold futures raised long positions by 1.4% and cut short positions by 17.6%. Net long position rose by 51% to 90831 contracts. Speculators had cut net long position sharply in anticipation that central banks may embark on monetary tightening however Fed' cautious tone and lack of any measures by other central banks helped gold price recover. While gold price outlook remains upbeat, speculative buying may slowdown at higher price. Silver speculators more than doubled their net long position as price outlook improved. Non-commercial traders for silver futures raised long positions by 0.1% and cut short positions by 12.2%. Net long position rose by 107% to 19417 contracts. Silver speculators had raised short positions drastically in last few days and we saw some short covering. Dollar speculators turned net short for the first time since June 2014 on Fed uncertainty.

SPECULATIVE POSITION (for the week ended 25 July)						
Non-commercial	QUOTE	LONG	SHORT	NET POSITION	CHANGE	CHANGE(%)
GOLD	CONTRACTS	220299	129468	90831	30693	51.0
SILVER	CONTRACTS	90865	71448	19417	10041	107.1
EURO	CONTRACTS	197656	106814	90842	-479	-0.5
DOLLAR INDEX	CONTRACTS	25829	28334	-2505	-4557	-222.1

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GLOBAL 10-YEAR BOND YIELDS						
	CLOSE	CHANGE	% CHANGE	HIGH	LOW	
US	2.289	0.05	2.30	2.335	2.227	
UK	1.218	0.04	3.66	1.261	1.167	
Germany	0.542	0.04	7.11	0.586	0.490	
Canada	2.028	0.14	7.59	2.060	1.877	
CURRENCIES (spot)						
CURRENCY	CLOSE	CHANGE	% CHANGE	HIGH	LOW	
DOLLAR INDEX	93.259	-0.599	-0.6	94.285	93.15	
EURO/USD	1.1751	0.0088	0.8	1.1777	1.1613	
USD/INR	64.1525	-0.1662	-0.3	64.4625	64.0638	
OTHER ASSET CLASSES						
	CLOSE	CHANGE	%	HIGH	LOW	
CRB INDEX	182.12	5.46	3.09	182.6	176.0	
DJIA INDEX	21830.31	250.24	1.16	21841.2	21496.1	
CORRELATION MATRIX						
GOLD VS.	SILVER	CRUDE OIL	DOLLAR	DJIA		
Last Week	0.90	0.46	-0.96	0.74		
2017	0.45	-0.23	-0.41	0.48		
2016	0.87	0.33	-0.62	0.24		
2015	0.96	0.58	-0.65	0.30		
US ECONOMIC CALENDAR (source- Briefing.com)						
Date	IST	Release	For	Actual	Consensus	Prior
Jul-24	1930	Existing Home Sales	Jun	5.52M	5.58M	5.62M
Jul-25	1800	S&P Case-Shiller Home Price Index	May	5.7%	5.70%	5.70%
Jul-25	1930	Consumer Confidence	Jul	121.1	116.8	118.9
Jul-26	1930	New Home Sales	Jun	610K	610K	605K
Jul-26	2330	FOMC Rate Decision	Jul	1-1.25%	1-1.25%	1-1.25%
Jul-27	1800	Durable Orders	Jun	6.5%	2.90%	-0.10%
Jul-27	1800	Initial Claims	Jul-22	244K	240K	234K
Jul-28	1800	GDP-Adv.	Q2	2.6%	2.80%	1.20%
Jul-28	1930	Michigan Sentiment - Final	Jul	93.4	93.1	93.1

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Gold- COMEX gold trades near \$1270/oz, almost 5.5% higher than the 4-month low hit earlier this month. Gold slumped on central bank's monetary tightening outlook but rebounded as market players realized that central banks will take their time to take the next step. Gold's recent rise has been due to sharp losses in US dollar and trend in US currency will be key price determining factor in the near term. Fed decision last week has added to uncertainty about future outlook. Focus will be on US economic data and Fed comments. While focus remains on inflation, key data this week includes non-farm payrolls, ADP jobs report and ISM manufacturing. A number of Fed officials will speak this week and may reflect upon Fed's decision last week to keep interest rate unchanged. The US dollar will also be affected by development relating to Trump as debate over new healthcare bill will continue. The US dollar will also be affected by monetary policy decision of other central banks. Bank of England, Bank of Australia and Reserve Bank of India will hold their meeting this week. BOE and Australia are expected to keep interest rate unchanged while India is expected to cut rates. Central bank stance will also affect movement in global bond yields. Also in focus will be geopolitical development amid increased tensions between US and Russia and North Korea's missile test. ETF outflows show weaker investor interest in gold despite price gains. ETF buying may not emerge unless price corrects or there is fresh trigger to buy. On the whole, gold has managed to hit 1 ½ month high however there is still no major conviction that it will sustain. Hence we suggest waiting for lower levels to go long. The trading range for this week is \$1245-1281/oz.

On the domestic front, MCX Gold August contract may trade in a range of Rs.28400-28950/10 gram and buying could be considered at lower levels. Domestic gold price will also be affected by rupee movement and development in spot market. Rupee has appreciated in last few days but RBI's rate cut expectations could limit upside. RBI decision is due on August 2. Spot demand remains subdued and recent rebound in price could further dent buying.

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Silver-COMEX Silver trades near \$16.7/oz after last week's gain and is still holding near the resistance level of \$16.8/oz. Weakness in US dollar has lent support to commodities at large and silver has outperformed gold in last few days. We expect to see choppiness in silver as risk sentiment could result in mixed trade in gold and industrial metals. Gold remains supported by choppy equity markets, geopolitical tensions and uncertainty about Fed's monetary. Industrial metals are trading higher on Chinese demand optimism however weaker risk sentiment could limit gains. ETF outflows also show waning investor buying at higher price in silver. The spot gold silver ratio has stabilized near 76 levels and could see some upside momentum indicating that gold could outperform silver. COMEX Silver may trade in a range of \$16.3-16.95/oz and we suggest waiting for lower levels for fresh buying. Trend in US dollar will be pivotal for both gold and industrial metals with focus on US economic data and Fed comments. Also in focus will be development relating to Trump administration which will affect risk sentiment.

Tracking cues from international exchange, MCX Silver September contract may trade in a range of Rs.37800-38900/kg and fresh buying should be only at lower levels. Trend in rupee will also affect domestic silver price. Development in domestic spot market will also affect prices. Domestic silver may continue to trade at a marginal premium over international price with clarity on GST rates.

PIVOT LEVELS						
COMMODITY	EXCHANGE	QUOTE	SUPPORT	SUPPORT	RESISTANCE	RESISTANCE
GOLD OCT	COMEX	USD/OZ	1237.0	1254.4	1281.5	1291.2
SILVER SEP	COMEX	USD/OZ	15.99	16.34	16.93	17.16
GOLD OCT	MCX	RS/10GM	28428	28626	28940	29056
SILVER SEP	MCX	RS/KG	37223	37842	38889	39317

These levels are determined by mathematical calculation based on previous week's price movement

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Date	IST	Currency	Data	Forecast	Previous	Importance
31-Jul	14:30	EUR	CPI Flash Estimate y/y	1.3%	1.30%	Medium
		EUR	Unemployment Rate	9.2%	9.30%	Low
	19:15	USD	Chicago PMI	60	65.7	Medium
	19:30	USD	Pending Home Sales m/m	1.0%	-0.80%	Medium
01-Aug	7:15	CNY	Caixin Manufacturing PMI	50.40	50.40	Medium
	10:30	INR	Nikkei Manufacturing PMI		50.90	Medium
	13:25	EUR	German Final Manufacturing PMI	58.30	58.30	Medium
		EUR	German Unemployment Change	-5K	7K	Low
	13:30	EUR	Final Manufacturing PMI	56.8	56.8	Low
	14:00	GBP	Manufacturing PMI	54.5	54.3	Medium
	14:30	EUR	Prelim Flash GDP q/q	0.6%	0.60%	Low
	18:00	USD	Personal Spending m/m	0.10%	0.10%	Medium
		USD	Personal Income m/m	0.40%	0.40%	Medium
	19:15	USD	Final Manufacturing PMI	53.1	53.2	Medium
	19:30	USD	ISM Manufacturing PMI	56.5	57.8	High
	USD	Construction Spending m/m	0.50%	0.00%	Low	
	All Day	USD	Total Vehicle Sales	16.8M	16.41M	Medium
02-Aug	14:30	EUR	PPI m/m	-0.10%	-0.40%	Low
	14:30	INR	RBI Repurchase Rate	6.00%	6.25%	High
	17:45	USD	ADP Non-Farm Employment Change	190K	158K	High
	20:00	USD	Crude Oil Inventories		-7.2M	Medium
	21:30	USD	Fed's Mester Speaks			Medium
03-Aug	1:00	USD	Fed's Williams Speaks in Las Vegas			Medium
	7:15	CNY	Caixin Services PMI		51.60	Low
	10:30	INR	Nikkei Services PMI		53.10	Low
	13:25	EUR	German Final Services PMI	53.50	53.50	Low
	13:30	EUR	Final Services PMI	55.40	55.40	Low
	14:00	GBP	Services PMI	53.6	53.4	Low
	14:30	EUR	Retail Sales m/m	0.00%	0.40%	Low
	16:30	GBP	Official Bank Rate	0.25%	0.25%	High
	17:00	GBP	BOE Gov Carney Speaks			High
	18:00	USD	Unemployment Claims	240K	244K	Medium
	19:15	USD	Final Services PMI	54.2	54.2	Low
	19:30	USD	ISM Non-Manufacturing PMI	56.9	57.4	Medium
		USD	Factory Orders m/m	2.80%	-0.80%	Medium
20:00	USD	Natural Gas Storage		17B	Medium	
04-Aug	11:30	EUR	German Factory Orders m/m	0.50%	1.00%	Low
	18:00	USD	Non-Farm Employment Change	180K	222K	High
		USD	Unemployment Rate	4.30%	4.40%	High
		USD	Trade Balance	-44.8B	-46.5B	Medium



Spot gold and silver values taken from Metastock

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Spot Gold Silver Ratio

The spot gold silver ratio stood at 76.16 on Friday unchanged from a week ago. The ratio was unchanged as both gold and silver ended with a gain of over 1%. Gold, silver and other commodities benefitted from weakness in US dollar on mixed economic data and Fed uncertainty. Platinum and palladium price ended mixed last week.

The gold silver ratio has corrected from recent high of near 78 levels. We expected ratio to consolidate with gold and silver near resistance levels and the ratio held near 76 levels last week. In the near term we could see choppiness in price as market players run out of factors to extend the recent gains. We expect the ratio to 75.5-77 in the near term and outlook is still to sell on rise. Gold has already run up and now faces resistance near \$1280/oz levels. Silver has still not breached \$16.8/oz levels but remains supported by firmness in industrial metals.

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