



Weekly Digest

KCSPL Research

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- MCX Gold April contract trades near Rs.30200/10 gram after a minor 0.2% gain last week. Gold rose last week as losses in international market was offset by weaker rupee and narrowing spread between domestic and international price. Rupee slumped 0.8% last week as concerns about fiscal deficit rose post announcement of Budget. Inflation concerns also picked up as government announced sops for farmers in form of higher MSP for crops. The discount of MCX Gold April contract to COMEX April futures was near \$20/oz ahead of Budget but narrowed to \$6/oz by end of the week. Domestic gold price moved to a discount in expectations that government will reduce import duty. There was no announcement on import duty last week and it stands unchanged at 10% . Government abolished the 3% education cess that was imposed on import duty however this has been replaced by 3% Special welfare surcharge. So net on net there is no change in duty structure. With Budget out of way, we may see some pent up buying emerging and spread could narrow further. Spread between Feb. and April contract narrowed from Rs.86/10 gram to Rs.31/10 gram. On the occasion of Dhanteras last year, the festival of wealth, MCX launched Options on Gold futures. Trade volumes stood at about 1560 crores on Day 1 but weakened later. Volume averaged 68 crores last week. Total OI was at 398 lots with maximum OI on call side at Rs.30500 strike and on put side at 30000 strike. The Put call ratio stood at 1.65 as against 0.92 a week ago.
- COMEX gold noted mixed trade last week but ended with a 1.5% decline. The fall was largely due to the sell-off seen on Friday. Gold plunged on Friday as better than expected US non-farm payrolls data helped US dollar recover from the lows and pushed bond yields to multi year high. The sell-off in equity markets also led to some profit taking in gold. ETF outflows also showed weaker investor interest in gold. The US dollar index hit a low of 88.555 but managed to recover and end near 89.2 levels. US non-farm payrolls report noted a 200,000 increase in jobs as against market expectations of 180K increase.. Unemployment rate was steady at 4.1%. Average hourly wages climbed at a year-on-year rate of 2.9% in January. This indicated that wage inflation is picking up and could lead to higher price pressure. Earlier last week, Fed kept monetary policy unchanged but indicated that inflation could rise towards target levels. Fed's stance and pick up in wages boosted inflation outlook fuelling expectations that Fed may consider more rate hikes and this helped US dollar stabilize.

- Fed last week kept interest rate unchanged at 1.25-1.5% in line with expectations. They maintained optimistic tone on US economy but stated that inflation could move towards target levels. Fed's statement also saw the inclusion of word further rate hikes. While Fed's undertone was slightly hawkish, we do not expect Fed to make any change in its three rate hike stance unless there is a significant shift in US economic or inflation outlook. Gold and equity markets generally move in inverse however we have seen both these asset classes rallying since start of the year. Global equity markets came under severe selling pressure last week as bond markets entered bear territory. The sharp surge in yields indicated higher borrowing costs going ahead which could affect economic activity. The US 10-year yield rose to 2.84% on Friday, highest since Jan.2014. US DJIA index slumped 2.5% on Friday, biggest one day slump in percentage terms since June 2016.
- COMEX Silver also held in a narrow range near \$17/oz for most of the week but slumped 2.6% on Friday and registered a 4.2% decline of the week. Silver fell amid concurrent losses in gold and industrial metals. Stability in US dollar and sell-off in equity market affected commodities at large. ETF outflows also showed weaker investor interest in silver however the pace was marginal. The spot gold silver ratio rose from 77.6 to 80.3 last week, the highest level since April 2016 as silver fell more than gold. Silver has continued to underperform amid mixed trade in gold and industrial metals and this trend could continue in the near term.

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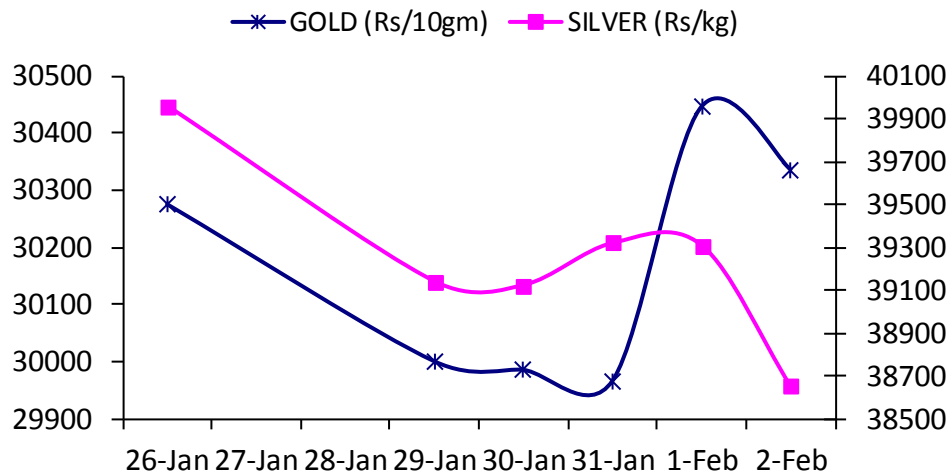
FUTURES (29th Jan to 02nd Feb 2018)

CONTRACT	EXCHANGE	QUOTE	CLOSE	CHANGE	% CHANGE	HIGH	LOW
GOLD APR	COMEX	USD/OZ	1337.3	-19.9	-1.5	1356.3	1330.1
SILVER MAR	COMEX	USD/OZ	16.709	-0.732	-4.2	17.470	16.52
GOLD APR	MCX	RS/10GM	30336	61	0.2	30639	29883
SILVER MAR	MCX	RS/KG	38651	-1309	-3.3	39850	38475

SPOT

COMMODITY	QUOTE	CLOSE	CHANGE	% CHANGE	HIGH	LOW
GOLD	USD/OZ	1333.4	-15.73	-1.2	1352.4	1327.5
SILVER	USD/OZ	16.591	-0.816	-4.7	17.487	16.563

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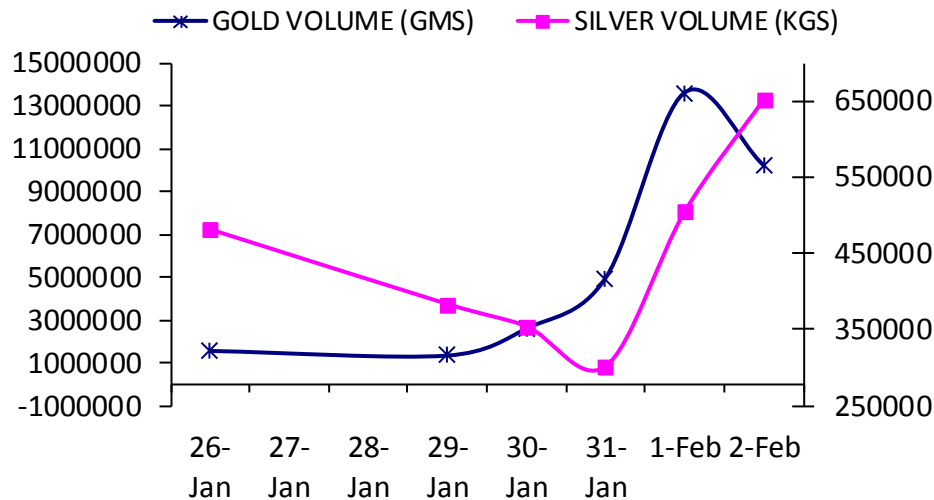
MCX Gold Silver Price Movement

MCX Gold April contract ended with a minor gain last week as losses in international market was countered by Indian rupee’s depreciation against the US dollar. The discount between international and domestic price narrowed post Budget.

MCX Gold April contract rose 0.2% while COMEX gold fell 1.5% and rupee depreciated 0.8% against the US dollar. COMEX gold slumped last week on stability in US dollar post non-farm payrolls data. Rupee depreciated post Budget announcement on concerns about fiscal deficit. The discount between domestic and international price was near \$20/oz ahead of Budget which narrowed to \$6/oz by end of the week. The discount narrowed as there was no announcement on duty cut as was anticipated by some.

MCX Silver March contract fell 3.3% as COMEX Silver plunged 4.2% and rupee depreciated against the US dollar. COMEX Silver fell in part due to a sharp sell-off in gold and industrial metals post non-farm payrolls data. The premium of domestic silver price widened to near 20 cents post Budget announcement.

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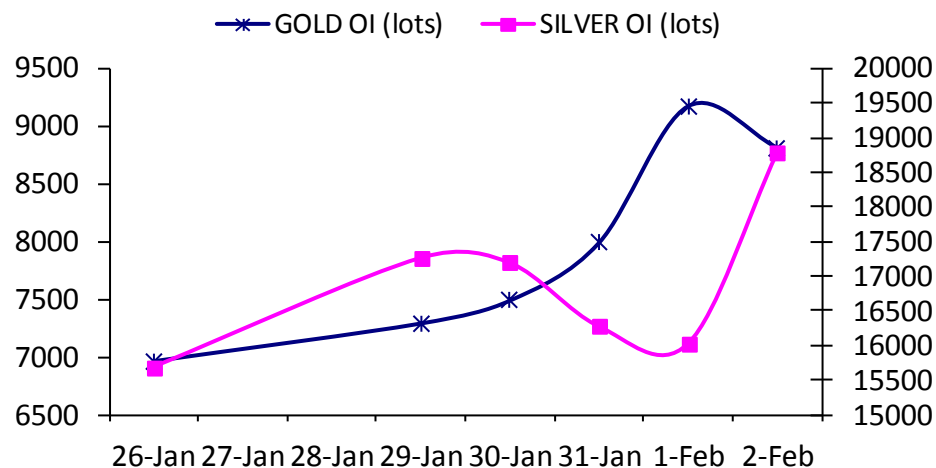
MCX Gold Silver Volume Trend

Trade volumes for MCX Gold April and MCX Silver March contract rose last week amid sharp price volatility.

On the week, trade volume for MCX Gold April contract rose from 1543 kilograms to 10206 kilograms, a gain of about 561%. Volumes averaged 5699 kilograms. Volume rose also as market players moved out of Feb. contract. Volume for MCX Silver March contract rose from 481.26 tonnes to 651.54 tonnes. and averaged at 445.87 tonnes.

MCX Gold April contract traded in a range of Rs.756/10 gram (Rs.29883-30639/10 gram). MCX Silver March contract traded in a range of Rs.1375/kg (Rs.38475-39850/kg)

MCX Gold Options started trading on October 17. Volumes averaged about 227 lots last week or about 68 crores.

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MCX Gold Silver Open Interest Trend

Open interest for MCX Gold April contract rose from 6961 contracts to 8817 contracts, an increase of 26.6%. OI rose while price declined indicated some build up in short positions. The move was also supported by higher trade volumes. The surge in OI is also due to shift from Feb. contract to April contract.

OI for MCX Silver March contract rose from 15689 contracts to 18780 contracts, an increase of 19.7%. OI rose last week as price fell sharply indicating build up in short positions.. The move was supported by higher trade volumes.

For Gold Options, open interest stood at 398 lots at end of last week as against 698 a week ago. Max OI for Call options was for 30500 strike while maximum OI for Puts was at 30000 strike. This shows that market players expect price to trade within this range. This is a shift from previous stance when max OI was at 29000 and 30000.

INVESTMENT INTEREST

While gold price turned choppy, ETF outflows showed waning investor interest. Market players booked out profits ahead of FOMC decision. Gold holdings with SPDR ETF fell by 6.79 tonnes to 841.353 tonnes last week. Silver ETF continued to register net outflows showing weaker investor interest. Silver holdings with iShares ETF fell by 4.16 tonnes to 9732.72 tonnes last week. ETF interest still remains weak which shows lack of confidence in gains in gold and silver.

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ETF HOLDINGS					
COMMODITY	FUND	19-Jan	12-Jan	CHANGE	% CHANGE
GOLD	SPDR	841.353	848.141	-6.79	-0.8
SILVER	ISHARES	9732.72	9736.88	-4.16	0.0

SPECULATIVE POSITION

Gold witnessed mixed trade near \$1345/oz as speculators cut net long position for the first time in seven weeks. As per US CFTC report for the week ended Jan.30, non-commercial traders for gold futures cut long and short positions by 2.4% and 0.1% respectively. Net long position fell by 3.5% to 207262 contracts. Gold rallied sharply in last few weeks on back of weaker US dollar however the rally showed signs of exhaustion and we saw some profit taking ahead of Fed decision. We expect price to witness choppy trade unless fresh cues emerge and this may dent speculative buying to some extent. Silver speculators on other hand raised net long position for the first time in three weeks. Non-commercial traders for silver futures cut long and short positions by 1.4% and 15.7% respectively. Net long position rose by 21.8% to 35422 contracts. Silver along with gold may remain in a broad range in the near term and this could dent speculative buying. Dollar speculators have turned net short since last three weeks given the general weaker outlook for US currency.

SPECULATIVE POSITION (for the week ended 30 Jan)						
Non-commercial	QUOTE	LONG	SHORT	NET POSITION	CHANGE	CHANGE(%)
GOLD	CONTRACTS	298327	91065	207262	-7422	-3.5
SILVER	CONTRACTS	75145	39723	35422	6341	21.8
EURO	CONTRACTS	258022	109280	148742	4025	2.8
DOLLAR INDEX	CONTRACTS	28953	34740	-5787	-1614	38.7

GLOBAL 10-YEAR BOND YIELDS						
	CLOSE	CHANGE	% CHANGE	HIGH	LOW	
US	2.841	0.18	6.81	2.853	2.653	
UK	1.577	0.13	9.21	1.608	1.436	
Germany	0.767	0.14	21.94	0.769	0.640	
Canada	2.363	0.10	4.47	2.391	2.277	
CURRENCIES (spot)						
CURRENCY	CLOSE	CHANGE	% CHANGE	HIGH	LOW	
DOLLAR INDEX	89.20	0.13	0.14	89.64	88.56	
EURO/USD	1.246	0.004	0.290	1.252	1.234	
USD/INR	64.07	0.52	0.82	64.19	63.48	
OTHER ASSET CLASSES						
	CLOSE	CHANGE	%	HIGH	LOW	
CRB INDEX	198.35	-2.17	-1.08	200.1	196.5	
DJIA INDEX	25520.96	-1095.75	-4.12	26608.9	25490.7	
CORRELATION MATRIX						
GOLD VS.	SILVER	CRUDE OIL	DOLLAR	DJIA		
Last Week	0.84	0.17	-0.72	0.63		
2018	0.56	0.86	-0.88	0.86		
2017	0.28	0.05	-0.74	0.55		
2016	0.87	0.33	-0.62	0.24		
US ECONOMIC CALENDAR (source- Briefing.com)						
Date	IST	Release	For	Actual	Consensus	Prior
Jan-29	1900	Personal Income	Dec	0.4%	0.40%	0.30%
Jan-29	1900	Personal Spending	Dec	0.4%	0.50%	0.80%
Jan-30	1930	S&P Case-Shiller Home Price Index	Nov	6.4%	6.40%	6.30%
Jan-30	2030	Consumer Confidence	Jan	125.4	124	123.1
Jan-31	1845	ADP Employment Change	Jan	234K	190K	242K
Jan-31	2015	Chicago PMI	Jan	65.7	61	67.8
Jan-31	2030	Pending Home Sales	Dec	0.5%	0.60%	0.30%
Feb-01	0030	FOMC Rate Decision	Jan	1.25-1.5%	1.25-1.5%	NA
Feb-01	1900	Initial Claims	Jan-27	230K	238K	231K
Feb-01	2030	ISM Index	Jan	59.1	58.5	59.3
Feb-02	1900	Nonfarm Payrolls	Jan	200K	180K	160K
Feb-02	2030	Factory Orders	Dec	1.7%	1.30%	1.70%
Feb-02	2030	Michigan Consumer Sentiment - Final	Jan	95.7	95	94.4

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Gold- COMEX gold has corrected after hitting a 17-month high amid some stability in US dollar. Trend in US dollar has been the key price determining factor for gold and this trend will persist. The US dollar index has managed to recover from 3-year low on upbeat non-farm payrolls data, higher bond yields and Fed's stance on inflation. However, weighing on US dollar is uncertainty about US government shutdown and narrowing yield gap between US and global bond yields. US policymakers have until Feb.8 to pass a final spending bill to avert another government shutdown. The shutdown last month had little impact however repeated failures may not bode well for US economy as well as US dollar. The sell-off in global bond markets has pushed bond yields to multi year high however European yields have risen more and the yield gap has widened. This situation may not change significantly unless we see some stability in bond markets. Gold and equity market are generally inversely correlated however if we see the sell-off in equity markets continuing we may see some long liquidation in gold as well. ETF outflows show weaker investor interest in gold and this trend may not change unless we see major price correction or if there is a fresh positive trigger. Commodities in general will also be affected by risk sentiment and Chinese economic data. For the week, COMEX gold may trade in a range of \$1325-1355/oz and selling could be seen at higher levels only if US dollar manages to hold on to recent gains.

On the domestic front, MCX Gold April contract may trade in a range of Rs.29900-30650/10 gram and selling could be considered at higher levels. The discount between domestic and international price has narrowed post Budget announcement and could narrow further as pent up demand will result in buying interest. Rupee has weakened substantially post Budget and could remain under pressure ahead of RBI decision. Domestic gold price are likely to outperform international price hence we suggest waiting for higher levels to go short.

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Silver-COMEX Silver trades near \$16.7/oz after sharp sell-off late last week. Correction in gold and industrial metals post non-farm payrolls data put pressure on silver price. We expect gold price to witness choppy trade as market players assess whether recent recovery in US dollar will continue or not. Industrial metals are also likely to witness mixed trade as optimism about US and China is countered by volatility in equity market and US dollar. ETF outflows show weaker investor interest and while further activity may be price sensitive we do not expect to see significant inflows. The spot gold silver ratio rose to 80 levels last week as silver fell more. The ratio surged in knee jerk reaction to US jobs report. We could see some stability in the ratio but overall bias is still on the upside. For gold, focus will be on US economic data and comments from central banks and development relating to US government shutdown. Industrial metals will be affected by US and Chinese economic data and trend in equity markets. For the week we could see price trading in a range of \$16.3-17.3/oz and selling could be seen at higher levels if dollar index holds ground.

Tracking cues from international exchange, MCX Silver March contract may trade in a range of Rs.38100-39500/kg and sell on rise is suggested. Trend in rupee will also affect domestic silver price. Domestic silver may continue to trade at a marginal premium over international price and demand rises post Budget with no announcement on import duty.

PIVOT LEVELS						
COMMODITY	EXCHANGE	QUOTE	SUPPORT	SUPPORT	RESISTANCE	RESISTANCE
GOLD APR	COMEX	USD/OZ	1315.0	1326.2	1352.4	1367.4
SILVER MAR	COMEX	USD/OZ	15.95	16.33	17.28	17.85
GOLD APR	MCX	RS/10GM	29530	29933	30689	31042
SILVER MAR	MCX	RS/KG	37617	38134	39509	40367

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
05-Feb	10:30	INR	Nikkei Services PMI		50.90	Low
	14:25	EUR	German Final Services PMI	57.00	57.00	Low
	14:30	EUR	Final Services PMI	57.60	57.60	Low
	15:00	EUR	Sentix Investor Confidence	33.20	32.90	Low
		GBP	Services PMI	54.10	54.20	Low
	15:30	EUR	Retail Sales m/m	-1.00%	1.50%	Low
	20:15	USD	Final Services PMI	53.30	53.30	Low
	20:30	USD	ISM Non-Manufacturing PMI	56.70	55.90	Medium
	21:30	EUR	ECB President Draghi Speaks			Medium
06-Feb	12:30	EUR	German Factory Orders m/m	0.50%	-0.40%	Medium
	19:00	USD	Trade Balance	-52.0B	-50.5B	Medium
	19:20	USD	Fed Bullard Speaks			Medium
	20:30	USD	JOLTS Job Openings	5.95M	5.88M	Low
07-Feb	12:30	EUR	German Industrial Production m/m	-0.60%	3.40%	Medium
	14:30	INR	RBI Repurchase Rate	6.00%	6.00%	High
	16:30	USD	Fed Kaplan Speaks			Medium
	19:00	USD	Fed Dudley Speaks			Medium
	21:00	USD	Crude Oil Inventories		6.8M	Medium
08-Feb	Tentative	CNY	Trade Balance	322B	362B	High
	Tentative	CNY	USD-Denominated Trade Balance	54.7B	54.7B	High
	3:50	USD	Fed William Speaks			Medium
	12:30	EUR	German Trade Balance	21B	23.7B	Low
	17:30	GBP	Official Bank Rate	0.50%	0.50%	Medium
		GBP	Asset Purchase Facility	435B	435B	Medium
	18:30	USD	Fed Harker Speaks			Medium
	19:00	USD	Unemployment Claims	233K	230K	Medium
	19:30	USD	Fed Kashkari Speaks			Medium
	21:00	USD	Natural Gas Storage		-99B	Medium
09-Feb	7:00	CNY	CPI y/y	1.5%	1.80%	Medium
		CNY	PPI y/y	4.2%	4.90%	Medium
	7:30	USD	Fed George Speaks			Medium
	15:00	GBP	Manufacturing Production m/m	0.3%	0.40%	Medium
		GBP	Industrial Production m/m	-0.90%	0.40%	Medium
	18:30	GBP	NIESR GDP Estimate	0.50%	0.60%	Low



Spot gold and silver values taken from Metastock

Spot Gold Silver Ratio

The spot gold silver ratio stood at 80.3 on Friday as against 77.6 a week ago. This is the highest level seen since April 2016. The ratio rose sharply last week as silver fell more than gold. Stability in US dollar and sell-off in global equity markets affected all commodities. Weakness in gold and industrial metals led to a bigger fall in silver. ETF outflows also show weaker investor interest in silver.

The ratio has breached 80 level for the first time since 2016. The surge was partly due to the sell-off seen in reaction to non-farm payrolls data. We may see some correction in ratio as market stabilizes after the sell-off but we maintain buy on dips view. Silver may continue to underperform given the mixed trend in gold and industrial metals and continuing ETF outflows. The ratio may trade in a range of 79-81 and bias may be on the upside.

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