



Weekly Digest

KCSPL Research

MARKET ANALYSIS**Market Analysis**

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- MCX Gold trades near Rs.29200/10 gram Monday after a marginal 0.2% gain last week. Gold rose last week amid firmness in international market however Indian rupee's appreciation against the US dollar limited the gains. Domestic gold price remained at a discount to international prices. The discount was nearly \$20/oz at end of the week amid expectations of stronger rupee and slack domestic demand. There were also talks that Indian government may reduce import duty on gold in the upcoming budget. This pulled the April contract to a discount to February contract. If a duty cut is announced during Budget it will reflect in April contract. Gold industry players have been asking for duty cut on gold for a long time. Government can change the tax structure any time and need not wait for budget for the announcement. Indian government is still trying to grapple with changes caused by GST and is unlikely to take an imminent decision on gold. On the occasion of Dhanteras, 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 42 crores last week. Total OI was at 1360 lots with maximum OI on call side at Rs.30000 strike and on put side at 29000 strike. The Put call ratio stood at 0.36 as against 0.33 a week ago. Indian rupee tested the highest level since July 2015 supported by higher bond yields and gains in equity market. General weakness in US dollar also benefitted rupee.
- COMEX gold trades near \$1320/oz after a 1% gain last week. Gold hit a high of \$1327.3/oz last week, the highest level since Sept.15, 2017. Gold hit 3 ½ month high on weakness in US dollar and geopolitical tensions. The US dollar index hit the lowest level since Sept.20 on mixed economic data and uncertainty about Fed's monetary policy. FOMC minutes last week showed that policymakers are supporting gradual rate hike stance despite weaker inflation and despite outlook for US economy. US economic data released last week was mixed. The key non-farm payrolls report noted a 148,000 increase in US jobs as against forecast of 190K increase. The November growth figure was however revised up from 228K to 252K. Optimism about US labour market is still high and will not change despite few weaker readings. Geopolitical tensions rose as anti government protest picked up pace in Iran. Increasing support for pro-independence party in Catalonia Spain and lack of government in Germany underpinned safe haven assets. War of words between US and North Korea also increased safe haven buying.

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- Gold rallied also on sharp rise in palladium prices. Palladium rallied to record high levels last week adding on to the over 50% rally seen in 2017. The gains in gold were however limited by firmness in equity market. US equity market rallied more than 2% to hit fresh record high levels. Optimism about the economy has continued to attract investors. US equity market managed to gain despite mixed economic data from major economies and political uncertainty in Europe. Gold was also pressurized by ETF outflows. While gold price ended higher last week, ETF saw a marginal outflow which shows that investors are not buying at current elevated levels. Tensions relating to North Korea eased a bit as North and South Korea agreed on holdings talks on January 9. German political parties are also holding negotiations to form a coalition government and Chancellor Angela Merkel is optimistic that the talks may succeed. Iran's Revolutionary Guard said security forces have ended the unrest linked to anti-government protests which erupted last month however uncertainty persists.
- COMEX Silver trades near \$17.2/oz after a 0.8% gain last week. Silver rose along with gold last week on weaker US dollar. The gains were however limited by mixed trade in industrial metals and weaker ETF interest. Industrial metals witnessed mixed trade as rally seen in December last year showed signs of exhaustion. ETF outflows showed that investors are using higher price to exit the funds. The spot gold silver ratio was largely steady above 76 levels as both gold and silver turned rangebound amid lack of fresh cues.

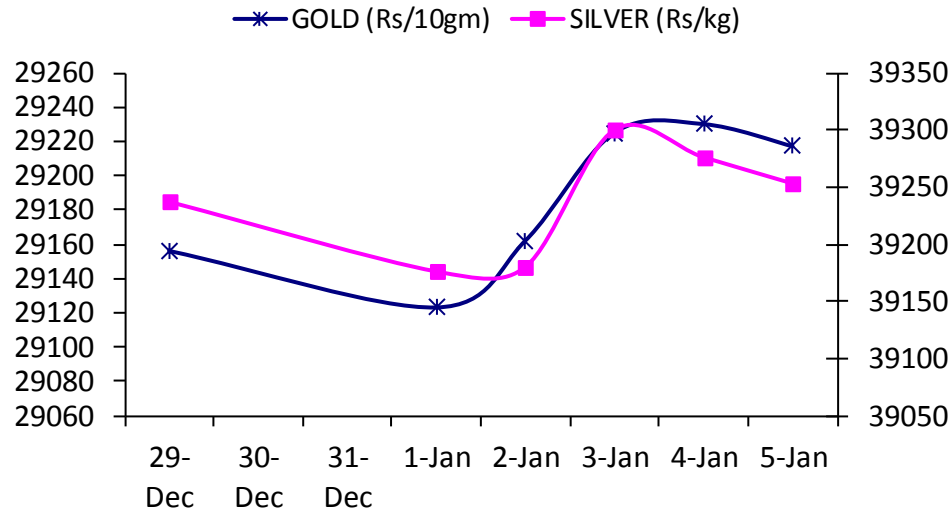
FUTURES (01st Jan to 05th Jan 2018)

CONTRACT	EXCHANGE	QUOTE	CLOSE	CHANGE	% CHANGE	HIGH	LOW
GOLD FEB	COMEX	USD/OZ	1322.3	13	1.0	1327.3	1304.6
SILVER MAR	COMEX	USD/OZ	17.285	0.14	0.8	17.325	16.985
GOLD FEB	MCX	RS/10GM	29217	61	0.2	29284	29061
SILVER MAR	MCX	RS/KG	39253	16	0.0	39372	38900

SPOT

COMMODITY	QUOTE	CLOSE	CHANGE	% CHANGE	HIGH	LOW
GOLD	USD/OZ	1319.6	16.79	1.3	1326.1	1302.6
SILVER	USD/OZ	17.222	0.285	1.7	17.291	16.940

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MCX Gold Silver Price Movement

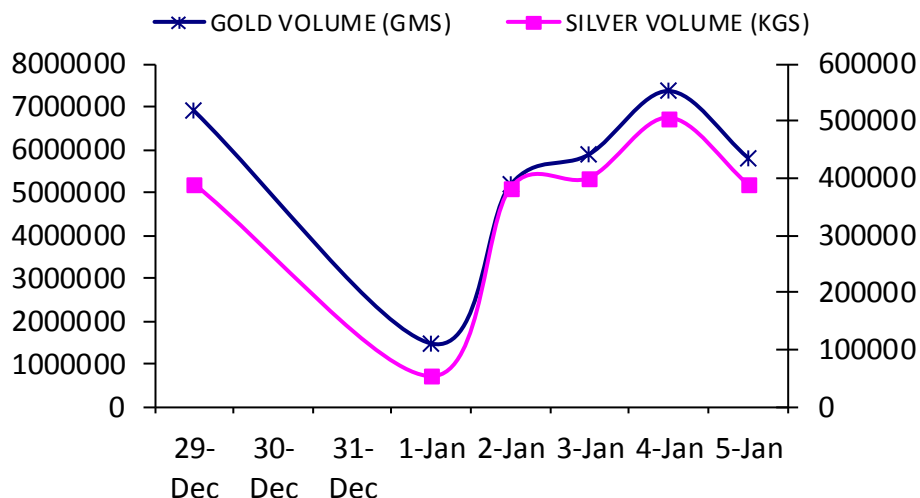
MCX Gold February and MCX Silver March contract ended marginally higher last week as gains in international market was offset by Indian rupee’s appreciation against the US dollar.

MCX Gold February contract rose 0.2% last week while COMEX gold surged 1% and Indian rupee appreciated by 0.8% against the US dollar. COMEX gold rose last week on weaker US dollar and geopolitical issues. ETF outflows and weaker investor interest however weighed on price. Rupee surged to the highest level since July 2015 on firmness in equity market and higher bond yields. Rupee managed to gain despite rising crude oil prices and geopolitical issues.

MCX Silver March contract noted a negligible gain last week as COMEX silver rose 0.8% and rupee appreciated against the US dollar. Silver rose along with gold last week on weaker US dollar. Mixed trade in industrial metals however limited upside in silver. ETF outflows also showed weaker investor interest.

MCX Gold trades at a discount of near \$20 to international price in expectations that government may reduce import duty at the upcoming budget on Feb.1. Silver trades at a marginal premium.

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MCX Gold Silver Volume Trend

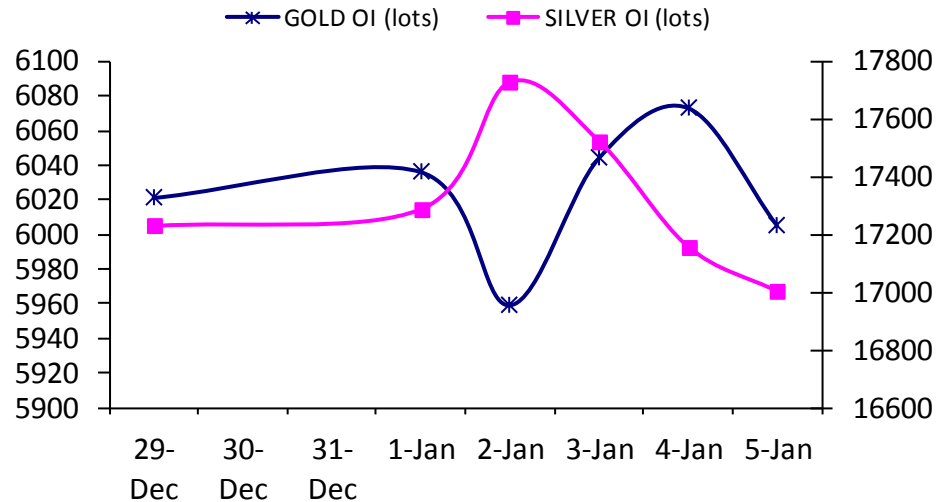
Trade volumes for MCX Gold February and MCX Silver March contract wavered but were lower over the week as price held in a broad range. The divergence in domestic and international market caused by rupee gains also affected trading interest.

On the week, trade volume for MCX Gold February contract fell from 6900 kilograms to 5811 kilograms and averaged at 5433 kilograms. Volume for MCX Silver March contract fell marginally from 389.6 tonnes to 389.4 tonnes. and averaged at 353.4 tonnes.

MCX Gold February contract traded in a range of Rs.223/10 gram (Rs.29061-29284/10 gram). MCX Silver March contract traded in a range of Rs.472/kg (Rs.38900-39372/kg)

MCX Gold Options started trading on October 17. Volumes averaged about 146 lots last week or about 42 crores.

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MCX Gold Silver Open Interest Trend

Open interest for MCX Gold February contract was little changed from 6021 lots to 6005 lots, a decline of 0.3%. OI fell while gold price ended marginally higher which indicates some short covering however neither change was significant enough. Trade volumes were also generally lower amid lack of major price movement and divergence between international and domestic price.

OI for MCX Silver March contract fell from 17229 contracts to 17003 contracts, a decline of 1.3%. OI fell while price was largely unchanged over the week. Trade volumes were steady to lower. All these indicators give no conclusive result.

For Gold Options, open interest stood at 1360 lots at end of last week as against 1341 a week ago. The rise in OI was marginal as price held within recent trading range. Max OI for Call options was for 30000 strike while maximum OI for Puts was at 29000 strike. This shows that market players expect price to trade within this broad trading range.

INVESTMENT INTEREST

Gold and silver ETF saw net outflows last week which shows weaker investor interest at higher price. Gold holdings with SPDR ETF fell by 2.64 tonnes to 834.86 tonnes. Gold surged to 3 ½ month high last week. Silver holdings with iShares ETF fell by 156 tonnes to 9904 tonnes. Silver price rallied sharply in last few days amid rally in gold and industrial metals. ETF outflows despite higher price indicates lack of confidence that the rally may sustain.

ETF HOLDINGS					
COMMODITY	FUND	05-Jan	29-Dec	CHANGE	% CHANGE
GOLD	SPDR	834.860	837.496	-2.64	-0.3
SILVER	ISHARES	9904.09	10060.70	-156.61	-1.6

SPECULATIVE POSITION

Gold rallied to 3 1/2 month high as speculators raised net long position for the third consecutive week. As per US CFTC report for the week ended Jan.2, non-commercial traders for gold futures raised long and short positions by 19.2% and 17.3% respectively. Net long position rose by 20.1% to 163268 contracts. Weakness in US dollar has propelled gold price higher but firmness in equity market challenges any major upside hence we do not expect sustained buying by speculators. Silver speculators raised net long position to four week high. Non-commercial traders for silver futures raised long positions by 1.5% and cut short positions by 24.5%. Net long position rose from 4648 contracts to 22750 contracts an increase of nearly 389%. Silver speculators cut short positions on sharp gains in gold and industrial metals however we have not seen much buying due to weaker investor interest.

SPECULATIVE POSITION (for the week ended 05 Dec)						
Non-commercial	QUOTE	LONG	SHORT	NET POSITION	CHANGE	CHANGE(%)
GOLD	CONTRACTS	241428	78160	163268	27320	20.1
SILVER	CONTRACTS	75127	52377	22750	18102	389.5
EURO	CONTRACTS	236808	108940	127868	35720	38.8
DOLLAR INDEX	CONTRACTS	34204	32045	2159	-299	-12.2

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GLOBAL 10-YEAR BOND YIELDS

	CLOSE	CHANGE	% CHANGE	HIGH	LOW
US	2.476	0.07	2.95	2.485	2.405
UK	1.244	0.05	4.54	1.295	1.190
Germany	0.439	0.01	2.81	0.468	0.423
Canada	2.154	0.11	5.33	2.165	2.045

CURRENCIES (spot)

CURRENCY	CLOSE	CHANGE	% CHANGE	HIGH	LOW
DOLLAR INDEX	91.95	-0.17	-0.19	92.32	91.75
EURO/USD	1.203	0.002	0.200	1.209	1.200
USD/INR	63.37	-0.50	-0.78	63.86	63.32

OTHER ASSET CLASSES

	CLOSE	CHANGE	%	HIGH	LOW
CRB INDEX	193.45	-0.42	-0.22	195.7	193.3
DJIA INDEX	25295.87	576.65	2.33	25299.8	24741.7

CORRELATION MATRIX

GOLD VS.	SILVER	CRUDE OIL	DOLLAR	DJIA
Last Week	0.98	0.60	-0.92	0.73
2018	0.98	0.60	-0.92	0.73
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-03	2030	ISM Index	Dec	59.7	58	58.2
Jan-03	2030	Construction Spending	Nov	0.8%	0.70%	0.9%
Jan-04	30	Auto Sales	Dec	4.4M	NA	4.70M
Jan-04	1845	ADP Employment Change	Dec	250K	190K	185K
Jan-04	1900	Initial Claims	Dec-30	250K	239K	247K
Jan-05	1900	Nonfarm Payrolls	Dec	148K	188K	252K
Jan-05	1900	Unemployment Rate	Dec	4.1%	4.00%	4.10%
Jan-05	1900	Trade Balance	Nov	-\$50.5B	-\$47.9B	-\$48.9B
Jan-05	2030	Factory Orders	Nov	1.3%	1.40%	0.4%
Jan-05	2030	ISM Services	Dec	55.9	57.6	57.4

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Gold- COMEX gold has stabilized near \$1320/oz after testing 3 ½ month high last week. Gold rallied sharply on back of weaker US dollar and geopolitical tensions however the rally is showing signs of exhaustion. The US dollar has weakened on mixed economic data, uncertainty about Fed's monetary policy and concerns about flattening yield curve. While overall outlook is still weak, some recovery is likely given the overall optimism about US economy and widening yield gap. Geopolitical tensions are far from over however market reaction may subside. Iran government claims that they have thwarted the protests. Germany and Spain are holding talks to resolve the crisis. North and South Korea are also meeting to find ways to reduce tensions. Also weighing on gold price is continuing strength in US and global equity market. Also weighing on price is weaker ETF interest despite weeks of price gain. Focus this week will be on US economic data and Fed comments which will affect US dollar. Development relating to Iran, North Korea, Spain and Germany will affect general risk sentiment. Chinese economic data will affect general demand outlook for commodities at large. Gold has rallied sharply in last few days and we expect to see some correction in the near term. For the week, COMEX gold may trade in a range of \$1300-1330/oz and sell on rise is suggested.

On the domestic front, MCX Gold February contract may trade in a range of Rs.28950-29400/10 gram and sell on rise is suggested. Domestic gold price will also be affected by rupee movement and development in spot market. Rupee has rallied sharply in last few days and could see some correction but overall sentiment is still positive. Demand in physical market will also be affected by higher price. Market expectations of import duty reduction may keep near month contract in backwardation.

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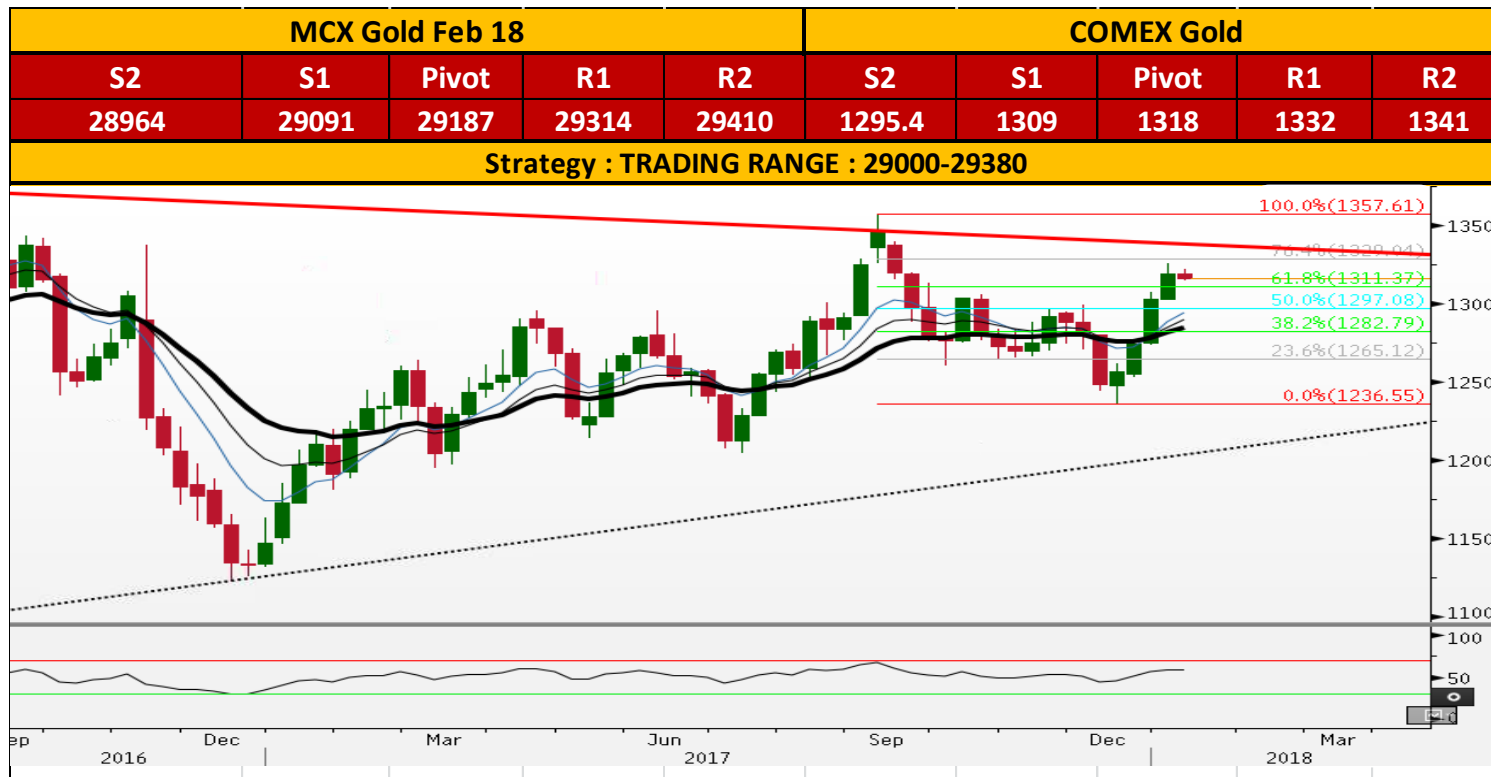
Silver-COMEX Silver trades near \$17.2/oz after a 0.8% gain last week. Silver has witnessed a sharp rise in last few weeks owing to concurrent gains gold and industrial metals however the rally is showing some signs of exhaustion and some correction is expected in the near term. Gold is trading near 3 1/3 month high but rally remains challenged by record high rally in US equity market and weaker ETF interest. Industrial metals have also witnessed mixed amid lack of fresh cues to extend the gains. Silver ETF saw net outflows despite gains in price in last few weeks which shows weaker investor interest. The spot gold silver ratio fell sharply in last few days on silver's outperformance but we expect the ratio to form a base near 76 levels. For gold, focus will be on US economic data and comments from Fed officials and geopolitical developments. 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 \$16.8-17.4/oz and sell on rise is suggested.

Tracking cues from international exchange, MCX Silver March contract may trade in a range of Rs.38700-39500/kg and sell on rise is suggested. 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.

PIVOT LEVELS						
COMMODITY	EXCHANGE	QUOTE	SUPPORT	SUPPORT	RESISTANCE	RESISTANCE
GOLD FEB	COMEX	USD/OZ	1295.4	1308.8	1331.5	1340.8
SILVER MAR	COMEX	USD/OZ	16.86	17.07	17.41	17.54
GOLD FEB	MCX	RS/10GM	28964	29091	29314	29410
SILVER MAR	MCX	RS/KG	38703	38978	39450	39647

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

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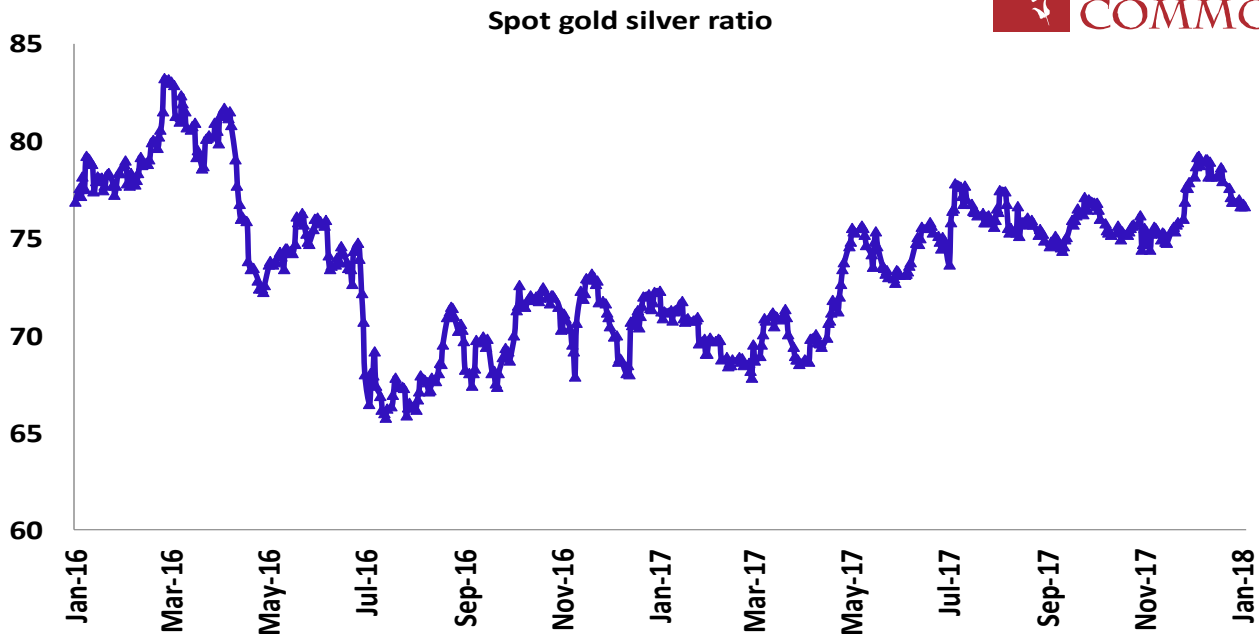
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Date	IST	Currency	Data	Forecast	Previous	Importance
08-Jan	12:30	EUR	German Factory Orders m/m	0.10%	0.50%	Medium
	15:00	EUR	Sentix Investor Confidence	31.50	31.10	Medium
	15:30	EUR	Retail Sales m/m	1.40%	-1.10%	Medium
		EUR	Business Climate Indicator	1.50	1.49	Low
	23:10	USD	Fed Bostic Speaks			Medium
09-Jan	0:05	USD	Fed Willam Speaks			Medium
	2:30	USD	Fed Rosengren Speaks			Medium
	12:30	EUR	German Industrial Production m/m	1.90%	-1.40%	Medium
	15:30	EUR	Unemployment Rate	8.70%	8.80%	Low
	20:30	USD	JOLTS Job Openings	6.025M	6.00M	Low
	20:30	USD	Fed Kashkari Speaks			Medium
10-Jan	7:00	CNY	CPI y/y	1.90%	1.70%	Medium
		CNY	PPI y/y	4.80%	5.80%	Medium
	15:00	GBP	Manufacturing Production m/m	0.30%	0.10%	Low
		GBP	Industrial Production m/m	0.40%	0.00%	Low
	18:30	GBP	NIESR GDP Estimate	0.50%	0.50%	Low
	19:30	USD	Fed Evans Speaks			Medium
	21:00	USD	Crude Oil Inventories		-7.4M	Medium
11-Jan	0:00	USD	Fed Bullard Speaks			Medium
	15:30	EUR	Industrial Production m/m	0.60%	0.20%	Medium
	18:00	EUR	ECB Monetary Policy Meeting Accounts			Medium
	19:00	USD	PPI m/m	0.20%	0.40%	Medium
		USD	Unemployment Claims	248K	250K	Medium
	21:00	USD	Natural Gas Storage		-206B	Medium
12-Jan	Tentative	CNY	Trade Balance	235.2B	263.6B	High
	Tentative	CNY	USD-Denominated Trade Balance	37B	40.2B	High
	2:00	USD	Fed Dudley Speaks			Medium
	17:30	INR	CPI y/y		4.88%	Medium
	17:30	INR	Industrial Production y/y		2.20%	Medium
	19:00	USD	CPI m/m	0.20%	0.40%	Medium
		USD	Retail Sales m/m	0.40%	0.80%	High



Spot gold and silver values taken from Metastock

Spot Gold Silver Ratio

The spot gold silver ratio stood at 76.6 on Friday as against 76.9 a week ago. The ratio was largely steady in a range of 76.6-77 last week as both gold and silver ended higher. Gold rose 1.3% while silver rose slightly more by 1.7% hence the decline in ratio.

Gold rose to 3 ½ month high last week on weakness in US dollar and geopolitical issues however firmness in equity market limited upside. Silver benefitted from firmness in gold but industrial metals turned mixed. Both gold and silver ETF flows show weaker investor interest at current price.

The spot gold silver ratio has corrected after forming a top near 79 levels as silver has outperformed gold. Gold and silver are running out of reasons to extend the gains and some correction could be seen in the near term. If price corrects, silver may fall more and this may push the ratio higher. We expect ratio to trade in a range of 76-77.5 and may move up.

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