



Precious Metals Weekly

Monday, July 17, 2017

Market Commentary

Precious metals staged a smart recovery last week after a string of losses as the Fed indicated that it might go slow with future hikes. Janet Yellen expressed concern over inflation in her semi-annual testimony and the actual inflation data later suggested that inflation failed to pick up for a fifth straight month. The probability of a December rate hike has declined while the dollar index continues to fall this month after witnessing its worst quarterly decline in seven years during Q2. ETF's saw an outflow last week with SPDR gold holdings down by 6.5 tonnes. Silver ETF holdings were however up by a massive 266 tonnes last week on bargain hunting. We mentioned last week that it was a very crucial period for precious metals with gold trading near important psychological levels and it seems \$1200 still holds as a very strong floor for prices. We do not have major economic triggers this week which means the bounce in gold and silver could extend further. The ECB meeting could provide trading cues. The ECB meeting could provide trading cues.

Context

After a spate of weekly losses, precious metals found a much needed respite from the Janet Yellen testimony last week. She indicated that rates may not have to go much higher from here to reach the neutral rate implying that future hikes will be slow and gradual. Secondly, while the last FOMC statement did not express concern over low inflation, Yellen in her speech acknowledged that inflation remains a concern. The CPI print for June released later in the week showed that inflation was unchanged m/m and that core CPI was stuck at 1.7% y/y. This was the fifth consecutive miss on the inflation

Gold- Weekly Market Data			
Exchange	Gold	COMEX	MCX
Contract	Spot	Aug	Aug
Open	1216.2	1216.4	27823
Close	1228.58	1227.5	27996
Change	12.3	17.8	212
% Change	1.30%	1.47%	0.76%
Pivot	1225.3	1224.7	27947
Resistance	1236.0	1235.5	28122
Support	1217.8	1216.8	27820

Silver- Weekly Market Data			
Exchange	Silver	COMEX	MCX
Contract	Spot	Sep	Sep
Open	15.65	15.66	36450
Close	15.95	15.93	36970
Change	0.30	0.27	739
% Change	2.37%	3.29%	2.04%
Pivot	15.87	15.86	36846
Resistance	16.17	16.14	37368
Support	15.65	15.65	36449

Ratios	
Gold/Silver	77.68
Gold/Oil	26.29

data and shows that getting inflation towards its 2% target remains a challenge for the Fed. This is also likely to apply brakes on the selloff in gold and silver as the market focus will now squarely be on inflation.

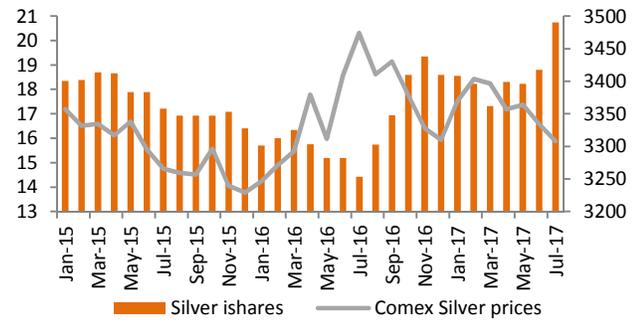
The July FOMC meeting is unlikely to provide any surprise but hints on the timing of balance-sheet trimming will be awaited. When the unwinding starts, the Fed will reduce reinvestments in Treasuries (TSY) at a rate of \$6bn/month and mortgage backed securities (MBS) at \$4bn/month, totalling \$10bn/month initially. It will increase the reinvestment caps in steps of \$10bn (\$6TSY+\$4MBS) at 3 month intervals over 12 months until it reaches a total 50bn per month.

Over the past few weeks, Gold has failed to rally despite the dollar being on a downtrend as hawkishness from major central banks like the ECB, BOE and the Bank of Canada have lifted their respective currencies and weighed on the dollar. The euro is at its highest in six-months after Draghi's positive assessment of the economy and inflation which was seen as a sign of hawkishness. The probability of a reducing divergence in policies between Fed and other banks like ECB and BOE is likely to keep the dollar lower in the coming weeks as well but that may not help precious metals much as bond yields have started to jump higher. In this context, the ECB meet this week will be crucial to see whether we see signs of hawkishness.

US economic data has also been generally benign but has failed to lift gold. The core PCE remains at 1.4%, far from Fed's 2% target while wage growth remains at 2.5% y/y. Inflation expectations also remain lower suggesting that hawkishness by the Fed is unwarranted. Retail sales fell 0.2% last month, the second straight decline. Consumer sentiment fell to 93.1 from 95.1.

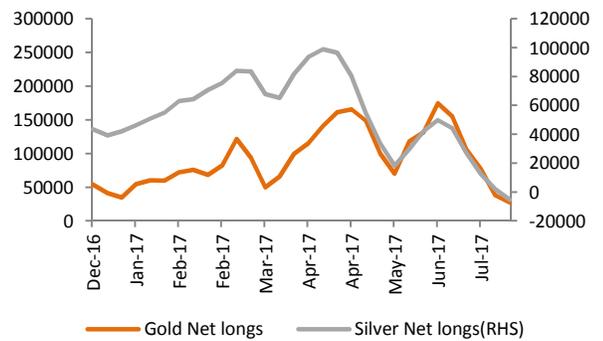
Labor market data, while good on the whole, still has room to improve. Jobs data that came out earlier in the month was a mixed bag. Employers added 222k jobs in June vs. expectations of 179k while unemployment rate ticked slightly higher to 4.4%. Wage growth however remains disappointing with earnings up 0.2% m/m and 2.5% y/y. The Non-farm payrolls increased by just 138k in May and

Silver I shares and Comex Silver Prices



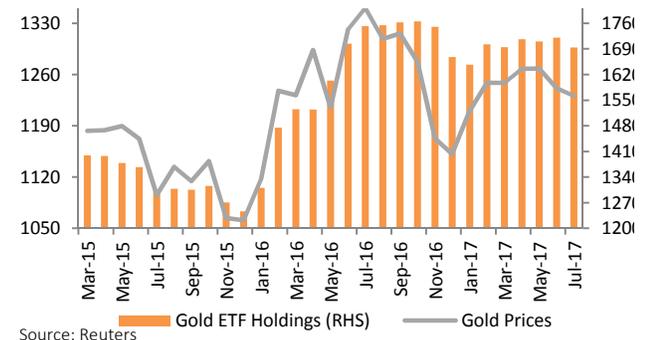
Source: Reuters

Speculative Positioning



Source: Reuters

Gold ETF flows



Source: Reuters

the payrolls for March and April were revised lower by 66k. The unemployment rate fell to a 16 year low of 4.3% but that was largely due to the drop in participation rate from 62.9% to 62.7%. Wage growth at 2.5% is still a good 100 bps lower compared to pre-recession levels suggesting that the labor market isn't tight. Q2 GDP forecasts continued to be revised lower and the Atlanta Fed model suggests growth of 2.5%, down from 4.0% last month.

On the demand side, Gold in India is quoting at a discount of \$2-3 an ounce as buying slowed after GST implementation and imports are starting to trend lower. Jewellers have stocked heavily in the first six months and this will likely impact imports in the coming months. ETF's also saw an outflow last week with SPDR gold holdings down by 6.5 tonnes. Silver ETF holdings were up by 266 tonnes and are up by nearly 300 tonnes so far this month as bargain hunting prevailed at lower prices.

Outlook

We mentioned last week that it was a very crucial period for precious metals with gold trading near important psychological levels and it seems \$1200 still holds as a very strong floor for prices. We do not have major economic triggers this week which means the bounce in gold and silver could extend further. The ECB meeting could provide trading cues.

Gold

Gold is likely to test resistances near 28255/28450 from and dips could be bought this week. On the downside, 27800/27600 are key support levels and they will need to be taken out for a reversal to happen.

Silver

MCX silver also looks likely to test 37450/37700 on the upside. On the lower end, 36680/36350 looks to be a strong support region for now. Dip buying is advised for silver too.



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