



GOLD

WILL IT SHINE IN THE NEAR TERM ?

Thematic Report by

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GOLD Sheen Off

Gold prices slumped below USD1,100/ounce last week owing to a strong US dollar, easing concerns over Greece's exit from the Eurozone, signing of the Iran nuclear deal, signs of a rate hike by the US Fed by late 2015, and low demand. Even the net long positions from the Commodities Futures Trading Commission (CFTC) indicate that the near-term outlook for gold is weak. In this article, we have tried to analyze demand dynamics, futures position on CFTC, and technical charts to understand the near-term outlook for gold.

FALLING GOLD PRICES



Global debt meltdown benefitted Gold since 2008

The precipitous fall in equity markets worldwide after the 2008 global debt meltdown led to an increase in gold prices to c.USD 1,900/ounce in August 2011 from c.USD 730/ounce in October 2008. Growth rates across geographies/economies slumped in 2009, and signs of recovery were visible from late 2010. As a safe bet, investors continued to invest in gold, the prices of which reached an all-time high by mid-2011. Later, investors diverted their attention

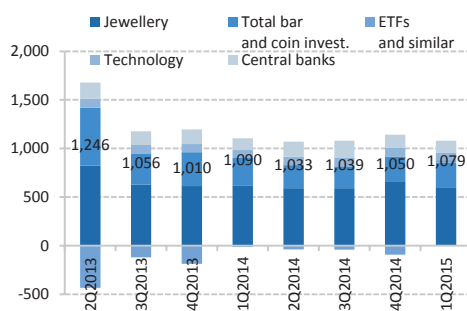
to other asset classes that had taken the brunt of the meltdown with higher earnings potential returns in the future. The broad-based recovery across economies further reinforced the view to invest in other asset classes. As a result, gold lost its sheen and its prices started correcting. A surge in the dollar index with the US economic recovery led to further correction in gold prices. Our technical analysis reveals a bearish outlook for gold over the next three months.

Lackluster Gold demand in Q1 2015

The recent gold demand trend suggests that demand relatively weak in the last few quarters. In addition, gold demand has been declining on a year-on-year (YoY) basis since 2011. This is attributable to low demand from key markets such as China and India. Nonetheless, gold demand in India increased 15% YoY, while that in China declined 7% YoY in Q1 2015. Gold

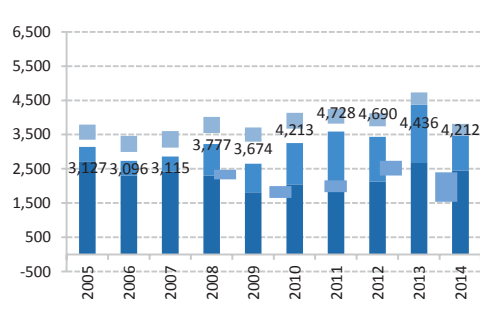
demand in India could increase in the future due to falling global prices, but the Indian rupee-US dollar exchange rate would need to be watched out for simultaneously. A substantial fall in the Chinese stock market in H1 2015 is expected to keep demand for gold weak in the near term. An analysis of the demand side indicates weak near-term gold demand, keeping the prices at bay.

Gold demand stable in recent quarters (tonnes)



Source: www.gold.org

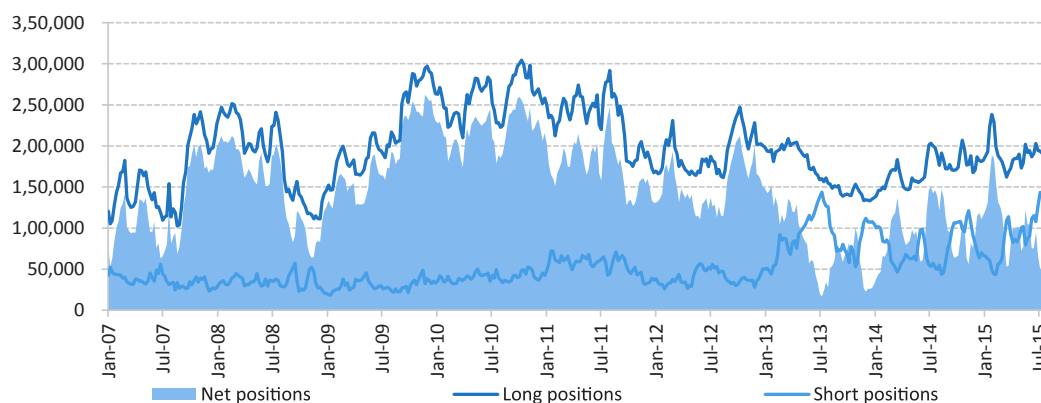
Gold demand stable in recent quarters (tonnes)



Falling net long positions on CFTC

On the CFTC, gold net long positions currently (week ending July 14, 2015) stand at 47,824, the lowest since January 2014. This indicates investors being averse to gold trading-related risks. Even overall long positions have been hovering in a narrow band, thereby indicating low interest from investors.

Declining net positions on CFTC

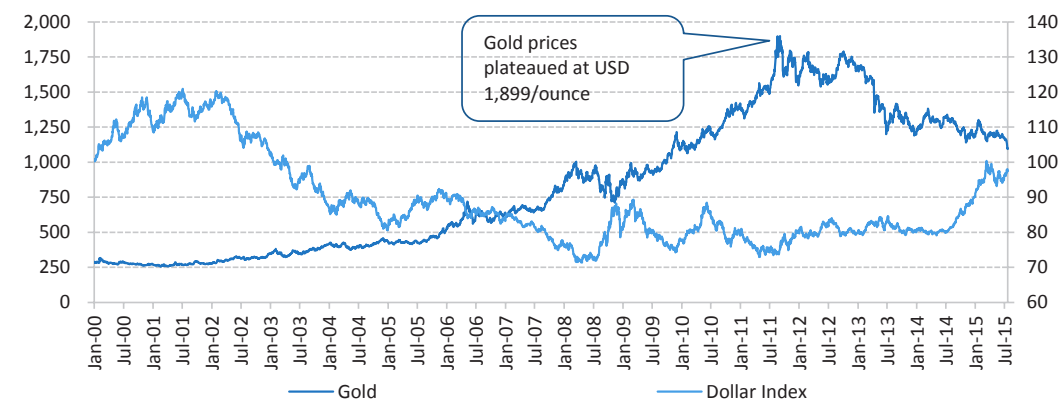


Source: CFTC

Strong US Dollar to limit rise in Gold prices

The gold and US dollar indices had a negative correlation between 2000 and YTD 2015. The negative correlation, which currently stands at -0.7, indicates that a US strong dollar index would be unfavorable for gold and vice versa. Recent comments from the US Fed suggest that the US Fed is likely to raise interest rates in H2 2015, which would limit uptrend in gold prices in the near term.

Uptrend in gold prices limited by strong US dollar



Source: Thomson Reuters

Gold to lose sheen temporarily

Broader data on gold demand, CFTC positions, and the US dollar index indicate that the near-term outlook for gold would remain challenging. Gold demand has picked up in India. Meanwhile, the slump in the Chinese stock market would impact demand for the yellow metal in China. We believe that fundamental factors are currently unfavorable for gold and, thus, its prices are likely to remain low in the near term.

TECHNICAL VIEW BEARISH (GOLD SPOT – USD 1,090.4)



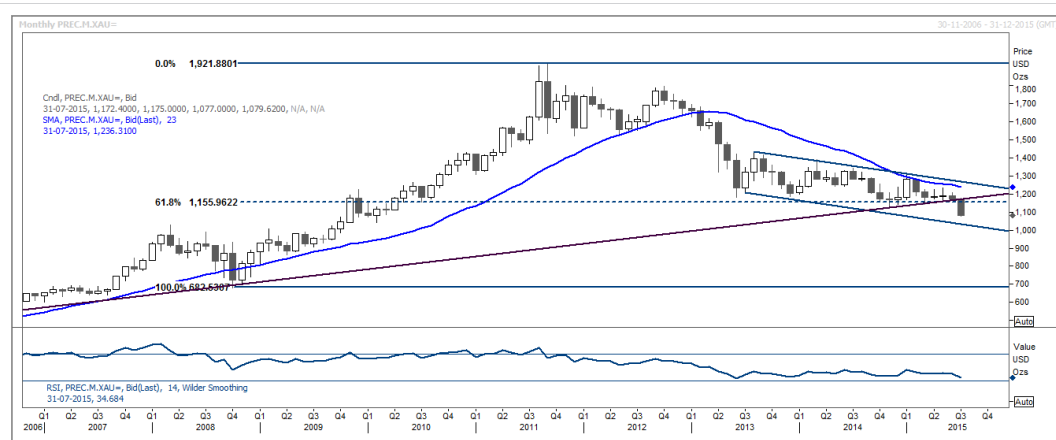
Technical commentary

As evident from the chart, gold has been trading in a downward sloping trend channel, experiencing selling on each rise. The theme of strong US dollar and weak commodities is playing well. However, the factor that aids in betting on a weak gold is that although gold is a safe haven, it did not gain any visible strength amid Grexit fears. Rather each rise has been sold off into. On the monthly charts, RSI continues to hover in the negative territory, supporting the bearish outlook on the commodity. It has currently breached the support of the 61.8% retracement of the rise experienced since 2008. This indicates sustained downward pressure on the commodity. The trend remains bearish. An immediate decline towards the lower channel support looks likely from here.

Key support/ resistance levels

(USD/ ounce)	R1	R2	R3	R4
Gold	1,144.1	1,208.6	1,046.1	1,012.6

Gold technical chart



Source: Thomson Reuters

Technical indicators

Indicators	Level	Trend
Daily RSI	16.89	Sell
Weekly RSI	29.81	Sell
MACD	-23.39/ -16.16	Sell
ADX	39.63	Sell
20-Day EMA	USD 1,134.0	Sell
50-Day SMA	USD 1,160.4	Sell
100-Day SMA	USD 1,180.4	Sell

Source: Thomson Reuters

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