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Gold/Silver Ratio: Shifting Gears!!!

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Spot Gold Silver Ratio



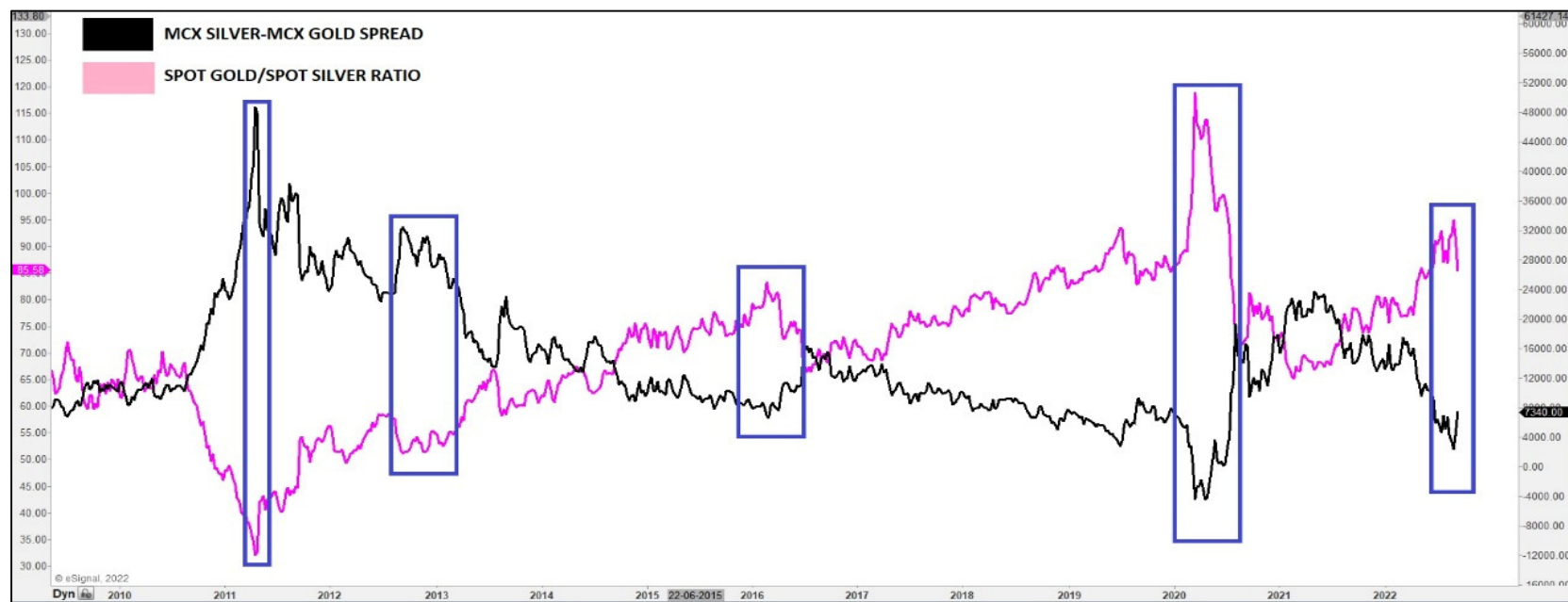
- Gold-Silver ratio chart is derived by dividing spot gold price with spot silver price. The result is plotted on the weekly chart as shown above. It can be noticed that the ratio recently completed a 'reverse head & shoulders' target around 95 and has started to trend lower. Multiple hurdles can be observed around the 95 mark with the level also coinciding with 50% Fibonacci retracement resistance as well as channel resistance.
- The ratio had earlier fallen from a life-time high of 126.50 towards support at 63.50. The prior decline is likely to continue after the current retracement with a re-test of support around 63.50 looking likely over the next 4-6 months.

MCX Silver-Gold Spread



- Silver-Gold spread chart is derived by subtracting MCX gold price from MCX silver price and the same is plotted on the weekly chart. It can be observed that the spread has recently reversed sharply from a confluence of long-term channel support and 78.6% Fibonacci retracement support level around 1750 mark (cmp 7200). A bullish rally was seen in the spread between March 2020 to May 2021 wherein it had expanded from -4770 to 25670 i.e. silver had recovered from trading at a discount of Rs.4770 to a steep premium of Rs.25670 to gold price.
- Looking ahead, a follow-up long-term rally similar to the one seen earlier is possible with a re-test of prior peak near 25700 looking likely.

Gold/Silver Ratio: MCX v/s Spot



- The chart shows spot Gold-Silver ratio chart (bold pink line) plotted against MCX Silver-Gold spread chart (bold black line). A perfectly negative correlation is observed between the trends on both charts i.e. a peak in the ratio generally corresponds with a bottom in the spread and vice versa.
- Since the ratio is expected to head lower towards 63.50 mark in the medium-term, a corresponding rally in the spread looks possible.
- **STRATEGY:** It is advisable to buy silver and sell gold at current difference of 7200 targeting a widening of spread to 25700. The view will get negated when the spread touches -1200 i.e. silver price (per kg) falls below gold price (per 10gm) by more than Rs.1200.

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