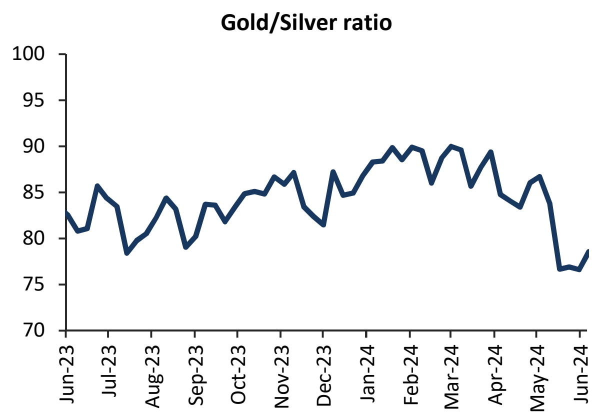
Tuesday, June 18, 2024

Gold and silver traded in a broad range, cautiously waiting US CPI and Fed policy meeting in the previous week. Shift in sentiment and expectations, kept market on edge, despite no seismic movements, gold managed to pull off a last-minute recovery, securing its first weekly gain in spot prices after a month of lacklustre performance. The key takeaway from this week's market action is twofold. Firstly, the Federal Open Market Committee (FOMC) has reinforced its hawkish stance, emphasizing a reluctance to accelerate interest rate cuts despite signs of easing inflation. Secondly, market dynamics have underscored a deep-seated yearning for macroeconomic data that might force a recalibration of Fed policy towards monetary easing.

Exchange	Gold	COMEX	MCX
Contract	Spot		
Open	2301	2307	71263
Close	2333	2331	71965
Change	31	26	612
% Change	1.74%	1.14%	0.86%
Pivot	2323	2323	71719
Resistance	2346	2340	72281
Support	2310	2314	71404

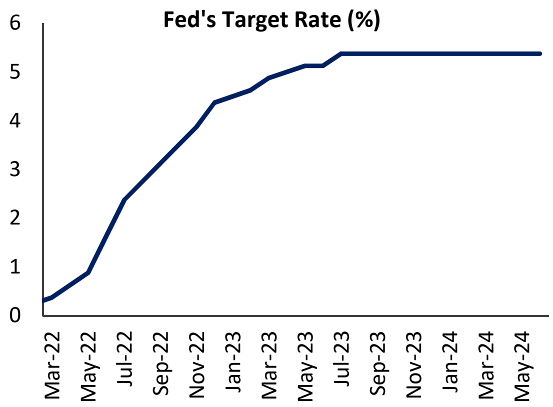
Silver- Weekly Market Data			
Exchange	Silver	COMEX	MCX
Open	28.93	29.39	88241
Close	29.54	29.40	89090
Change	0.61	0.02	1
% Change	1.25%	0.23%	0.00%
Pivot	29.31	29.44	88704
Resistance	29.81	29.50	89585
Support	29.04	29.34	88210

Gold prices started the week on steady note cautiously awaiting the US CPI and fed policy meeting. In May, US inflation moderated slightly, reported at 3.3%, just below market consensus of 3.4%. Month-on-month headline inflation remained flat, while core inflation, which excludes volatile food and energy prices, edged up by 0.2%. Despite the marginal pullback, inflationary concerns persist due to various factors, including supply chain disruptions, labor market dynamics, and pent-up consumer demand. US PPI reporting an unexpected 0.2% decline for May, signaling a potential hastening in inflation's retreat. This revelation sparked renewed interest among investors, prompting speculation that if input costs are receding, consumer prices might also follow suit in coming months.



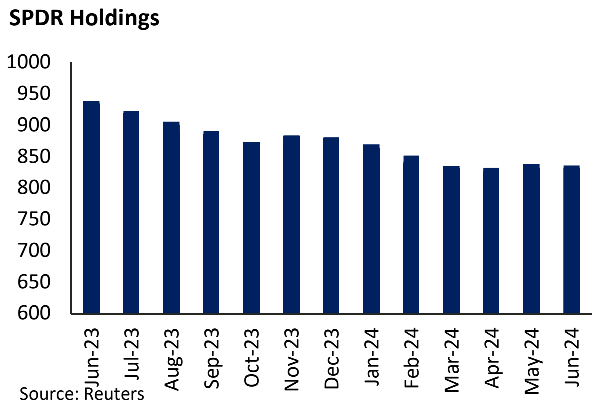
Source: Reuters

Amidst the backdrop of the CPI data release, market participants awaited the outcome of the Federal Reserve's policy meeting. The FOMC decided to maintain the target range for the federal funds rate at 5.25-5.5%, marking the eighth consecutive meeting without a change in interest rates. However, accompanying statement and economic projections provided insights into Fed's assessment of economic landscape and its monetary policy outlook. Overall tone by Fed was hawkish, as Governor Powell raised concerns about persistently high inflation and tight labor market. Notably, dot plot, which illustrates FOMC members' projections for future interest rates, revealed shift in expectations. The dot plot now show only one rate cut before the end of this year falling from three rate cuts announced in March. The median forecast from FOMC members suggests 100 bps of rate cuts in 2025, indicating a cautious approach towards managing inflationary risks over the medium term. Fed kept the unemployment and GDP forecast unchanged at 4% and 2.1%, respectively for 2024 however, inflation forecast was revised higher to 2.6% from 2.4% for this year.



Following the release of the CPI data, sharp rally was witnessed in most of the Commodities. The Dollar Index and US 10-Year Treasury Yields experienced significant declines; Dollar Index fell from ~105.30 to ~104.25; similarly, US10Y Yield fell from ~4.4% to 4.25% level. Moreover, probability of rate cut in September FOMC meeting increased from around 45% to 60%. It is interesting to see that even though the probability has remained near 60%, Dollar index and US Yields are up and steady near pre-CPI levels.

Petrodollar deal returned to spotlight after several years amidst rising geopolitical tensions, shifting political and economic dynamics, and disruptions in supply & demand. Recently, Saudi Arabia made a decision of not renewing its petrodollar deal with the US, originally signed in the early 1970s. This decision allows Saudi Arabia to sell oil and other goods in multiple currencies, including the Chinese RMB, Euros, Ruble, Yen, Yuan and others, rather than exclusively in US dollars. It's important to clarify that this decision does not ban the use of the dollar; by opting out of the contract that previously bound them to use only the dollar, they aim to facilitate instantaneous cross-border payments and foreign exchange transactions. Additionally, there may be potential considerations for the use of digital currencies like Bitcoin.



Source: Reuters

In this month, investment in gold SDPR witnessed an outflow of ~67 tonnes, holdings currently stand at ~825 tonnes. Similarly, ishares ETF reported an inflow of ~500 tonnes, holdings currently stand at ~13367 tonnes.

Looking ahead, market participants will closely monitor further communications from the Fed officials, as well as any new economic data releases that could provide insights into inflation trends and the overall health of the US economy. Economic data points like US

Industrial Production, Retail sales, preliminary Manufacturing and Services PMI data will be important to keep eye on. Additionally, developments regarding geo-political tensions will remain a key factor to watch, as it has potential to influence market dynamics. There are several fed officials scheduled to speak this week, hence any comments favouring delay in rate cuts could weigh on prices. Gold and silver for this week could continue trade in a broad range until it is not moving beyond the specified levels.

Technical Outlook: -

Gold:

In the previous week, MCX Gold demonstrated a rise of 600 rupees, or 0.86%, as depicted in the daily chart. The price action is currently forming a diamond pattern, a breakdown below the S1 support level at Rs. 70700 (potential reversal signal) might trigger a decline towards the Rs. 69000 to 68500 range. The 50-day (yellow line) and 20-day (red line) moving averages are converging, suggesting a negative crossover. Initial resistance is now at Rs. 72200 after that Rs. 72700 will be a major resistance.

Silver:

In the previous week, MCX Silver exhibited high volatility but ultimately closed on flat note. The daily chart illustrates that the price action is confined within a falling wedge. The key levels to watch include the upper bound of the wedge near Rs. 92,500 and the lower bound around Rs. 87,500. The 50-day (yellow line) and 20-day (red line) moving averages are currently suggesting a bearish move, with the price trading below both averages. Selling on rise near Rs. 90500 is suggested with Rs. 92,500 acting as a hurdle for bulls.

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