

# COMMODITIES INSIGHT



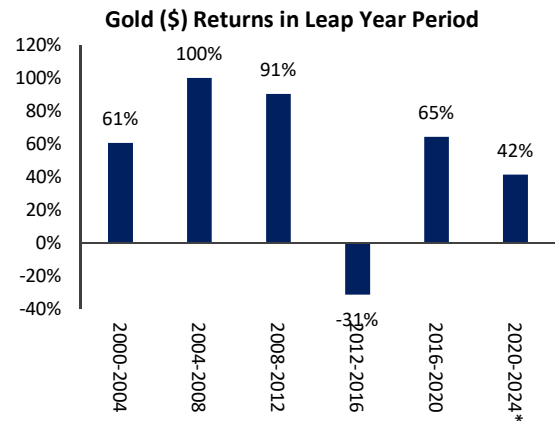
## Gilded Dreams this Diwali!!!

18<sup>th</sup> October 2024

Gold has consistently been one of the best-performing assets in recent years - barring 2021, the yellow metal has closed in the green on the domestic front since 2016. This year has been extraordinary, as gold on both Comex and the domestic market has reached all-time highs, posting gains of 30% and ~20% respectively, YTD. Similarly, silver has also performed well, gaining ~35% on COMEX YTD, driven by safe-haven buying and industrial demand. Two primary factors support the rally in metals this year: rate cut expectations from the Fed and escalating geopolitical tensions, particularly in the Middle East. In this report, we highlight the factors affecting safe-haven assets and some historic trends in gold prices during the festive season, especially Diwali.

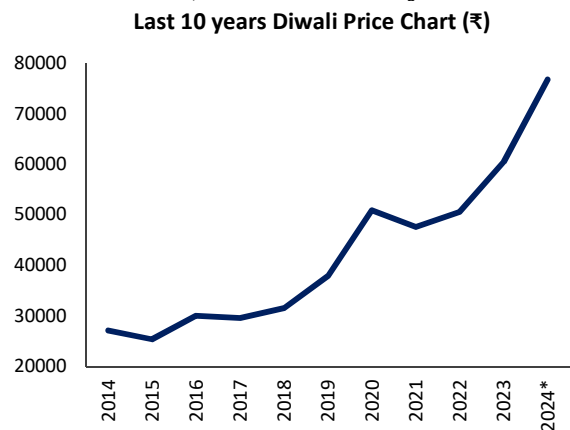
Central Bank monetary policies are crucial in shaping economic dynamics, as demonstrated by the Federal Reserve's recent 50 bps rate cut aimed at stimulating growth amid easing inflation and a softening labor market. Fed officials however continue to give out a mixed picture not letting market sentiments ahead of themselves, they mentioned that job growth remains decent and GDP is positive, caution is warranted for future rate cuts. Meanwhile, the geopolitical landscape, especially in the Middle East, has escalated since 2022 due to conflicts like Russia's invasion of Ukraine and the situation between Israel and Hamas, complicating regional stability and drawing global attention. Along with these factors, economic data points from US is also keenly watched by market participants.

Additionally, the upcoming U.S. presidential election could influence these geopolitical dynamics. A tough contest between former President Donald Trump and current Vice President Kamala Harris could introduce significant market volatility, as both candidates have differing views on foreign policy and military engagement. Interestingly, U.S. presidential elections occur in leap years, and during those times, sharp volatility in the commodities segment is often observed. Historically, this has been favourable for gold and silver; there has been only one negative return period for gold and silver between 2012 and 2016, while other leap year periods have shown a positive momentum.



Source: Reuters, Motilal Oswal Wealth Management

As we enter the festive season, this year's Festival of Lights will coincide with two major events: the U.S. presidential election and the second-last Fed policy meeting of 2024. Historically, demand for gold tends to rise during the festive season, boosting market sentiment. However, recent concerns about higher prices have raised worries about the overall demand impact. While domestic demand may dip slightly, prices could still be supported due to these significant events. No matter how many narratives shift or volatility occur, one certainty is that gold has historically provided a reliable store of value during uncertain times. If you had invested in gold during Diwali 2019, by this Diwali, you would be sitting on ~103% returns on your domestic gold investments.

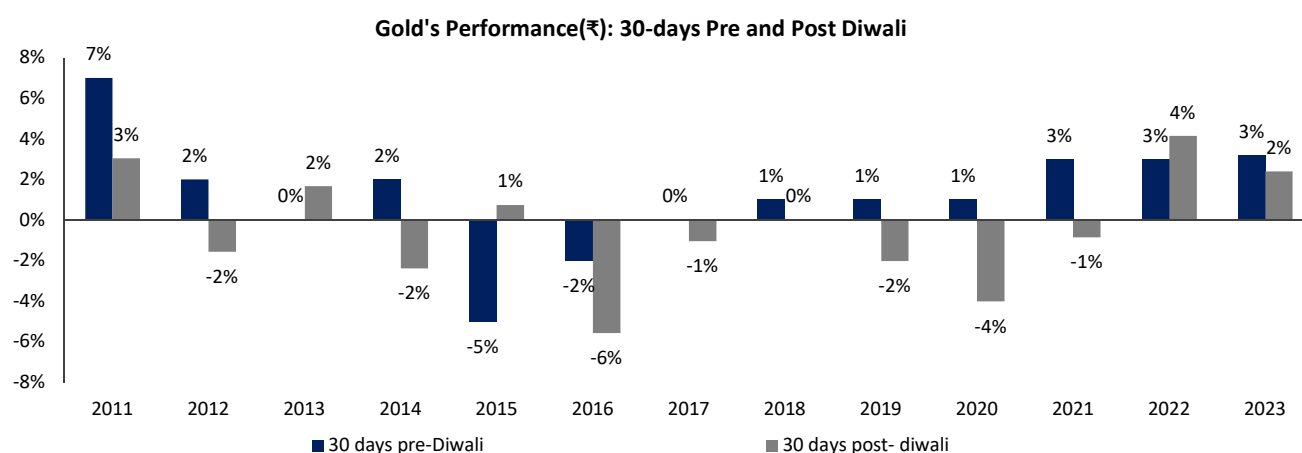


Source: goldpriceindia.com

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Upon examining leap years and historical patterns, we noted another interesting trend: how gold moves 30 days before and after Diwali, which usually falls at the start of November or end of October. Since 2011, there have been only two instances (2015 & 2016) where the 30 days leading up to Diwali saw negative returns, and apart from 2022, pre-Diwali gains have consistently exceeded post-Diwali gains. To further put this in perspective, we also analysed the heat map, taking an average from 2011, it shows similar trend wherein; Oct. has generally been a positive month and November has been somewhat lacklustre.



Source: Reuters, Motilal Oswal Wealth Management

Gold Demand for this year has been on a steady pace, Central banks for this year as well are on path of becoming net buyers. Last quarterly report from WGC suggest that Central banks have increased their Gold reserves by more than 400 tonnes until now in 2024. Similarly, domestic import for Gold are above 500 tonnes, this include the benefits of CEPA and recent reduction in customs duty, however if supply continue to rise and prices stay at such higher levels we could see some impact coming on demand side, on the domestic front. ETF inflows are also signalling a positive market sentiment, AUM for Gold of major mutual fund in India is currently more than 25000 cr.

## **Outlook:**

This year has seen a significant price rally driven by market uncertainties, rate cut expectations, rising demand, and a depreciating rupee. The months following the U.S. presidential election will be crucial in defining gold's near-term trajectory. It will be essential to observe how the rate cut scenario develops and how geopolitical tensions escalate amid the election. Sentiment for this Diwali is expected to be positive, keeping hopes high for bullion.

We continue to believe Gold has further upside potential; any dips could be used as a buying opportunity. As per our recent quarterly report, we believe, correction of 5-7% is possible which can act as an accumulation zone.

On a medium term perspective, Gold has a potential to target ₹81,000 and on longer period upside of ₹86,000 is possible; similarly, on COMEX targets for Gold is \$2,830 and \$3,000 on medium and long term respectively.

We believe, Silver could continue to match or outperform Gold, from a 12-15month perspective, Silver could reach the targets of Rs. 1,15,000 on MCX, which is \$40 on COMEX.

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