

ON A WEAK WICKET

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign Capital, Foreign Trade & BOP

Precious metals continued to lose their sheen in June and closed on a weak note for the third month in succession. Similar to the recent months, the strengthening of the U.S. dollar and the rise in U.S. treasury yield affected the sentiment towards precious metals.

As a result, Comex gold fell 2.2% in June to close at \$1,807.3 an ounce. Comex silver saw a much steeper cut of 6.2% to settle at \$20.35 an ounce.

In the domestic market, MCX gold futures fared relatively better with a moderate cut of 0.65% to close at Rs. 50,517 per 10-gm. MCX silver futures dropped 4.8% to settle at Rs. 58,887 per kg, at the end of June.

The weakening of the rupee against the U.S. dollar helped mitigate the impact of fall in gold in the domestic market. The hike in import duty on gold and silver announced on July 1, would also influence the domestic prices.

As anticipated last month, the Comex gold price ruled weak in June and also reached the then-mentioned target of \$1,770-1,780. The short-term outlook is positive and a move to \$1,850-1,860 appears likely. This outlook would be invalidated if the price falls below \$1,780.

Though Comex gold could see some recovery in the near term, the overall trend remains weak, and the expectation is that the price would resume its downtrend on the completion of the short-term rise.

The price action in Comex silver was also in line with expectations. As observed last month, the price ruled weak and also dropped well below the target zone of \$20.20 - 20.40. The recent fall has pushed the price to the oversold region and a short-term bounce is likely. A move above \$20.1 would confirm short-term strength and the price could then rise to \$20.85-21.

In the domestic market, the recent price action in MCX gold suggests the possibility of a short-term outlook rise. The price could rise to Rs. 52,750-53,000 per 10-gm. The outlook would be invalidated if the price falls below Rs. 49,900.

MCX silver, too, could see a short-term rise. A move above Rs. 58,600 would confirm the positive outlook and the price could then head to the short-term target of Rs. 59,500-60,000. A fall below Rs. 57,300 would invalidate the positive outlook.

To summarise, the precious metals have reached critical support levels and a short-term bounce is likely. Unless the price falls below the support levels mentioned above, expect a rise to the target zone.

(The author is a Chennai-based analyst / trader. The views and opinions are based on an analysis of short-term price movement in gold and silver futures at Comex and Multi Commodity Exchange of India. This is not meant to be a trading or investment advice.)

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