

December 2, 2020

Monthly Commodities Outlook:

Gold to rise towards ₹ 49500 amid dollar weakness

Research Analysts

Raj Deepak Singh

rajdeepak.singh@icicisecurities.com

Mohit Agarwal

mohit.agarwal@icicisecurities.com

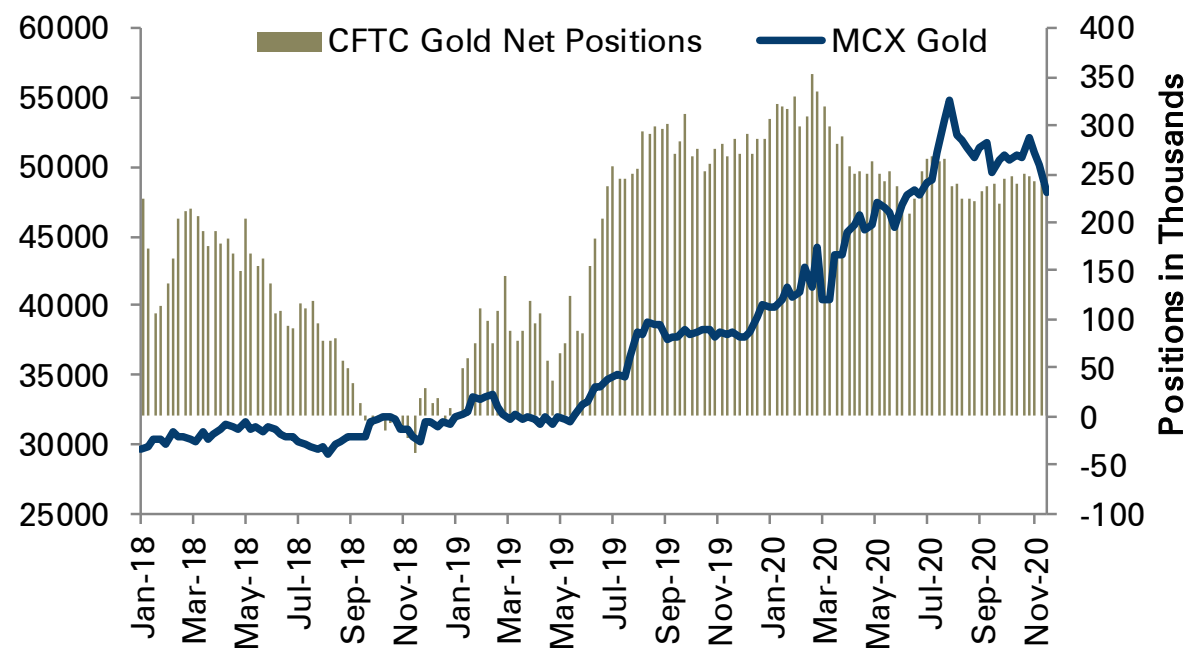
Gold Strategy

Buy Gold

Buy Gold mini (GOLDMI) January future around ₹ 48200-48300, Target: ₹ 49500, Stop loss: ₹ 47400

Rationale:

Gold prices have an immediate strong support around ₹ 47500 level. As long as it sustains above this level we may see a bounce towards ₹ 49500 level supported by a weaker dollar and worries on surging Coronavirus cases in the US & Europe. Along with that, massive amounts of stimulus into the economy have raised concerns on higher inflation. Therefore, we expect gold prices to recover from current levels towards immediate resistance of ₹ 49500 in the coming weeks.

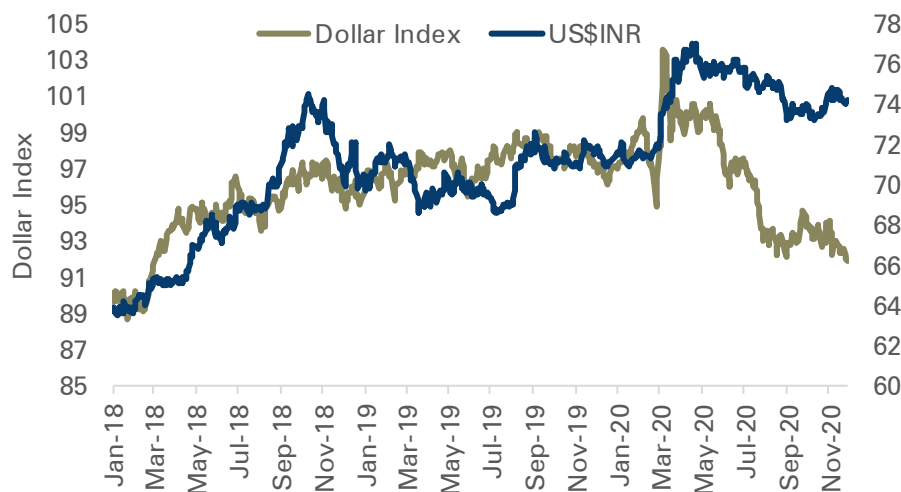


Source: Bloomberg, Reuters, ICICI Direct Research

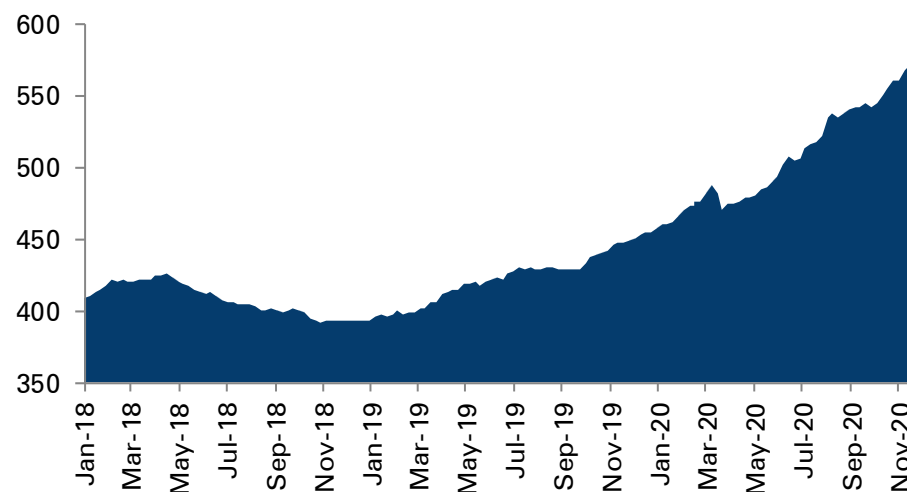
Rupee: Likely to appreciate towards 73.00 level...

- US\$INR futures started last month on a strong note with a rebound in the dollar index. However, gradual selling was seen during most of the month due to a strong rally in domestic equities along with a gradual weakening of the dollar index
- The dollar index fell more than 2% last month after Democrat US President-elect Joe Biden's election victory and positive Covid-19 vaccine progress, which has reduced demand for safe havens. Investors have rushed to riskier currencies and emerging-market assets in recent weeks, which has weighed broadly on the dollar
- Meanwhile, the US Federal Reserve's latest meeting minutes said policymakers could give new guidance on bond-buying "fairly soon". However, a few Fed policymakers were hesitant to make near-term changes to the guidance on account of the uncertain outlook
- Therefore, we expect the rupee to appreciate from current levels as risk-on sentiment around the world is likely to support equities and reduce the demand for greenback. US\$INR futures have a major hurdle around 74.50 level. As long as it sustains below this level, we expect an appreciation trend towards immediate support around 73.00 level. Selling on the rise is recommended in US\$INR for the coming weeks

US\$INR vs. Dollar Index

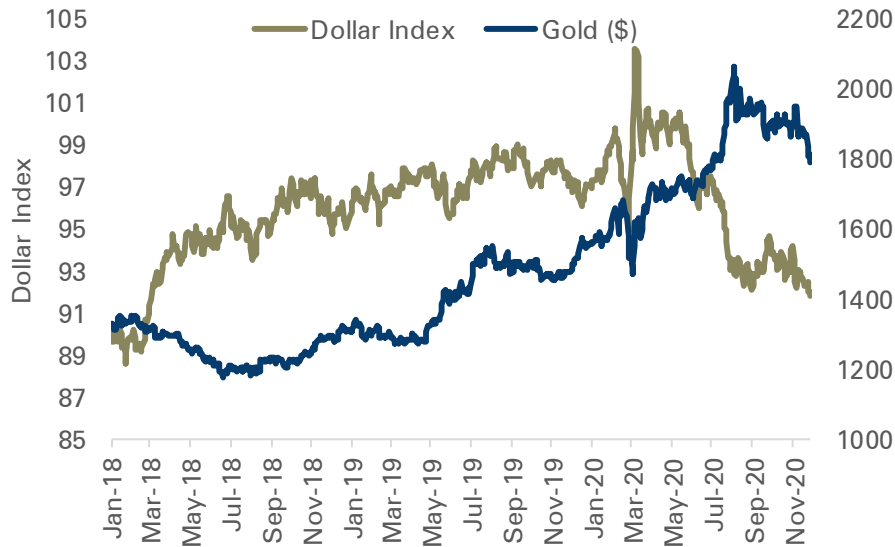


India Forex Reserves (billion US\$)

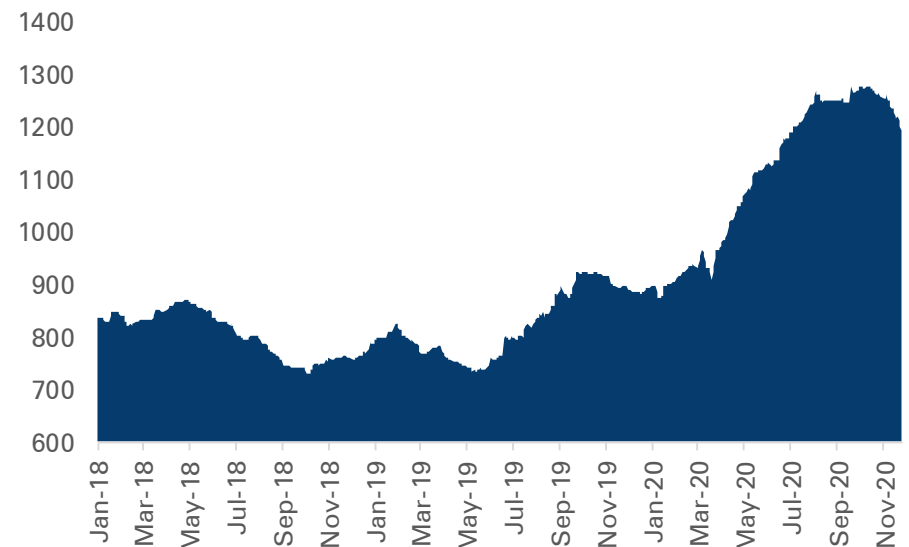


Gold: Expected to bounce amid dollar weakness, pandemic uncertainties...

International spot gold vs. Dollar Index



SPDR Gold Holdings (tonnes)



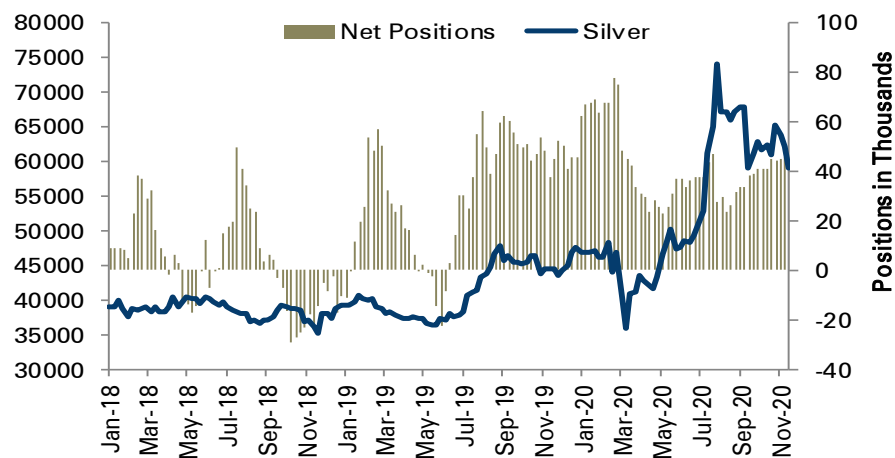
- Gold prices broke below the key \$1,850 support level to a near five-month trough as growing optimism about a quick vaccine-fuelled economic recovery and a smooth White House transition powered US equities to records
- SPDR gold holdings declined sharply in the last month to their five-month low as investors bet on calmer global trade under a Joe Biden administration in the US, which boosted risk-on sentiments and dented the safe-haven bullion
- Gold futures on MCX started last month with strong gains to their three months high of ₹ 52520 with concerns over a spike in Covid-19 cases. However, a sharp sell-off was seen during most of the month as rising investments into riskier assets due to vaccine progress eroded safe-haven appeal for bullion
- Gold prices have an immediate strong support around ₹ 47500 level. As long as it sustains above this level we may see a bounce towards ₹ 49500 level supported by a weaker dollar and worries on surging Coronavirus cases in the US and Europe. Along with that, massive amounts of stimulus into the economy have raised concerns on higher inflation. Therefore, we expect gold prices to recover from current levels towards immediate resistance of ₹ 49500 in coming weeks

Source: Bloomberg, Reuters, ICICI Direct Research

Silver: Expected to remain supported on industrial demand; copper expected to correct on large positioning...

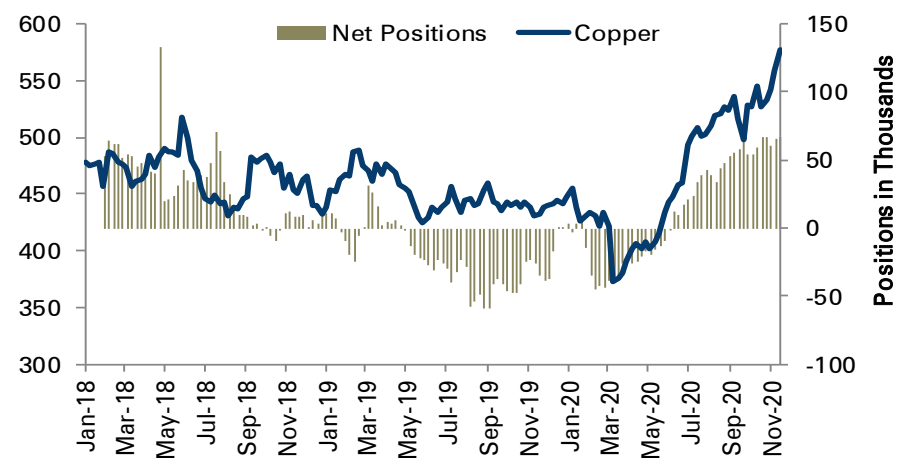
- Silver futures on MCX rose strongly in the first week of the month till a high of ₹ 66478. However, prices did not sustain at higher levels and fell sharply in remaining month till a low of ₹ 57877 as risk-on sentiments dented safe-haven appeal for bullion
- However, with a Biden administration in the White House, more investment in green tech like silver-dependent solar panels, electronics is expected to surge along with rising Coronavirus cases in US, Europe that are increasing safe haven appeal for bullion
- Moreover, dollar weakening is making silver cheaper for holders of other currencies. Therefore, we believe silver prices should bounce from current levels towards immediate hurdle around ₹ 66500 in the coming weeks

MCX Silver vs. CFTC Silver net positions



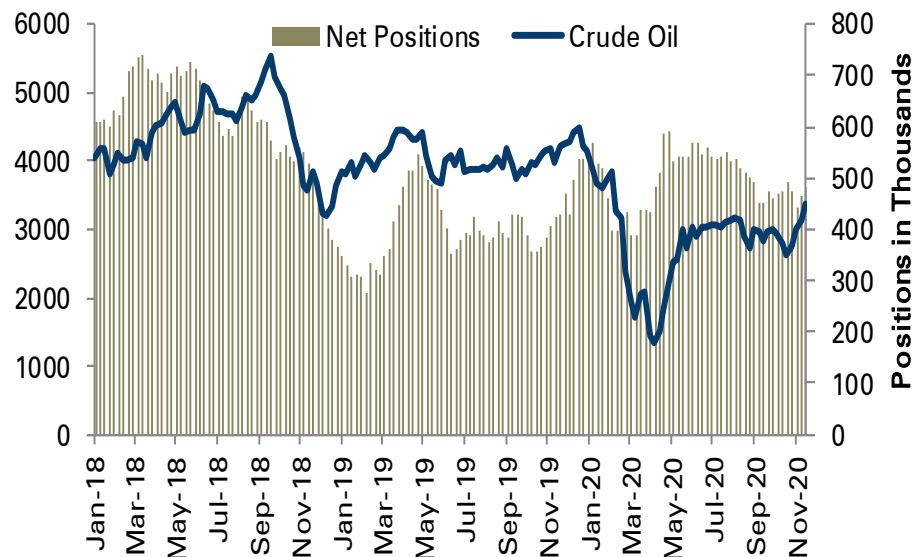
- Copper futures on the MCX rallied strongly during the last month till its fresh all-time high of ₹ 591.90 on hopes that a vaccine for the Coronavirus would galvanise global markets and boost demand for the industrial metal
- On-warrant copper stocks in warehouses monitored by the LME hit their lowest in two months, down 600 tonnes to 102,425 tonnes in the last week. However, bullish bets on copper are at the highest on record in data going back to 2014, which may suggest the positioning already is stretched
- Therefore, we expect copper prices to correct from current levels towards ₹ 550 as huge long positioning is raising concerns on significant downside risk of a correction in the near term

MCX Copper vs. CFTC Copper net positions

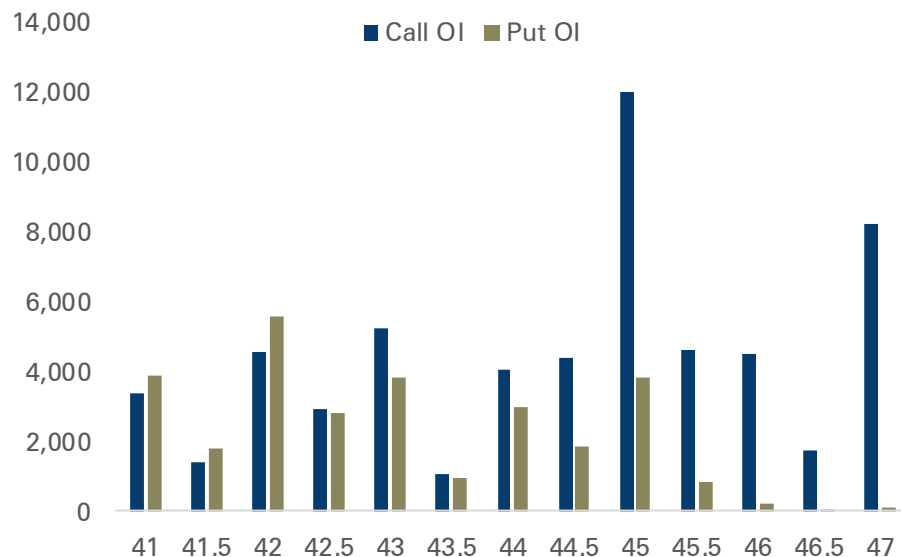


Crude oil: Expected to remain positive towards ₹ 3600 level...

MCX Crude Oil vs. CFTC Crude Oil net positions

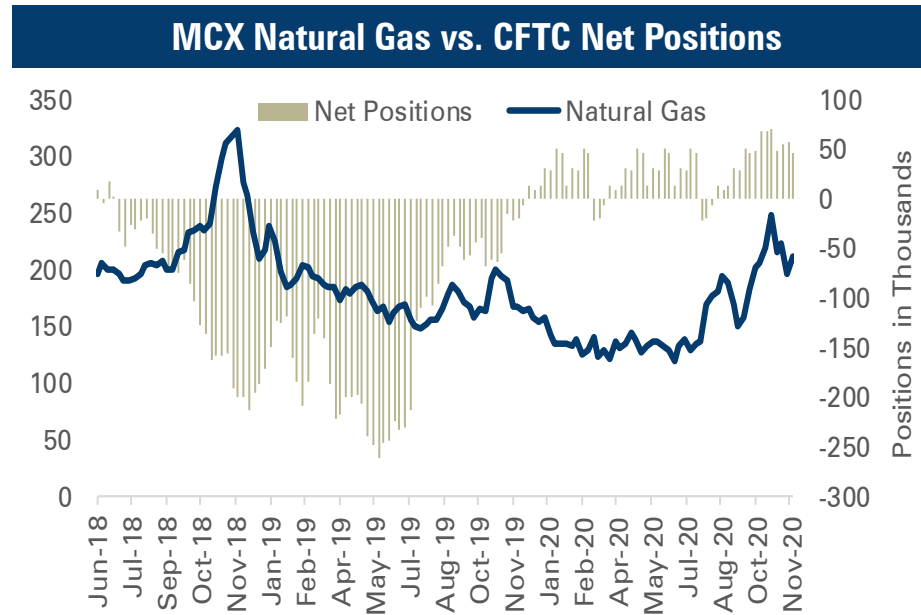


Nymex Crude Oil options build-up



- MCX crude oil futures rallied strongly in the last month till its fresh eight month high of ₹ 3415 on encouraging news of potential Covid-19 vaccines from AstraZeneca and others, which lifted the markets
- Along with that, the Organization of Petroleum Exporting Countries (Opec) and allies including Russia are leaning towards delaying next year's planned increase in oil output, according to sources close to the Opec+ group. Earlier, Opec+ was planning to raise output by 2 million barrels per day (bpd) in January - about 2% of global consumption - after record supply cuts this year
- However, rising Libyan output is contributing to concerns about oversupply in the market. The Opec member, which is exempt from the oil cuts, has added more than 1.1 million bpd of output since early September
- Overall, we expect crude prices to remain supported in the near term towards ₹ 3600 level as prolonged supply cuts from Opec+ along with easing travel restrictions and lockdowns may boost fuel demand outlook in the near term. However, a break below ₹ 3050 level will negate our bullish view on crude oil

Natural gas: expected to rise towards ₹ 250..



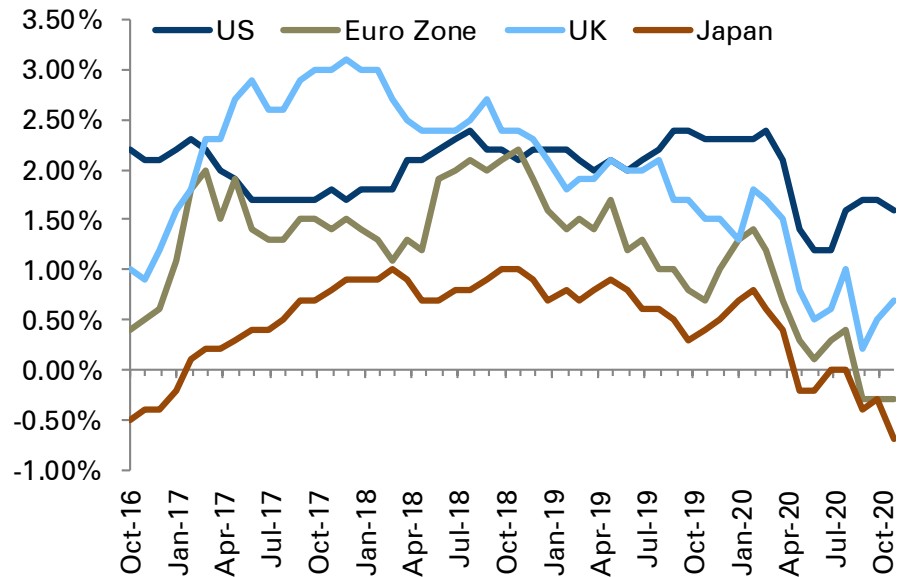
- Natural gas futures on the MCX fell sharply during the first half of the last month till a low of ₹ 187.40. However, prices rebounded strongly in the last week on account of higher heating demand on forecasts of freezing temperatures in the East and Midwest US
- US natural gas in storage is seeming to start the withdrawal season later than normal but forecasts show the Coronavirus pandemic should do little to deter seasonal demand levels moving forward, leaving an upside potential to Henry Hub futures despite elevated inventories
- Temperatures in the East and Midwest tumbled by double digits for the week ended November 20, pushing up residential and commercial demand nearly 10 Bcf/d to the highest levels seen since March, according to S&P Global Platts Analytics
- Therefore, we expect natural gas prices to remain positive for the coming weeks and rise towards ₹ 250 level as expected heating demand in the US is likely to support prices in the near term

Commodity Returns

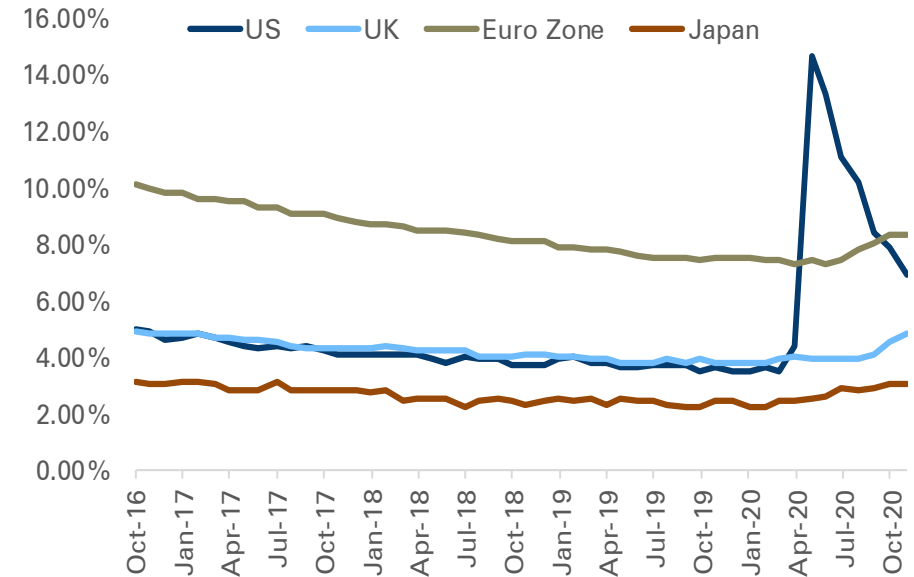
Exchange	Commodity	1 year return	3 years return	5 years return
Intl. Spot	Gold	27.3%	46.6%	73.0%
MCX	Gold	31.6%	71.0%	98.9%
Intl. Spot	Silver	40.8%	39.5%	70.0%
MCX	Silver	38.7%	58.3%	83.7%
LME	Copper	24.1%	6.9%	59.5%
MCX	Copper	28.6%	26.0%	84.5%
LME	Nickel	12.8%	38.4%	80.7%
MCX	Nickel	13.6%	59.9%	104.6%
LME	Zinc	21.2%	-11.5%	80.5%
MCX	Zinc	20.2%	8.5%	124.4%
LME	Lead	2.2%	-17.5%	27.7%
MCX	Lead	2.3%	-1.3%	50.5%
LME	Aluminium	13.7%	-5.0%	37.4%
MCX	Aluminium	25.4%	21.6%	71.8%
Nymex	Crude oil	-26.2%	-24.9%	4.1%
MCX	Crude oil	-23.6%	-14.5%	10.4%
Nymex	Natural gas	3.5%	-13.1%	16.2%
MCX	Natural gas	11.9%	3.1%	34.3%

Source: Bloomberg, Reuters, ICICI Direct Research

CPI (y/y)



Unemployment Rate



Forthcoming events

1-Dec	Euro Zone CPI (YoY) (Nov)	Euro Zone CPI is likely to remain unchanged in the negative territory around -0.3% as economic slowdown due to second wave of coronavirus infections is likely to keep inflation at lower levels
4-Dec	India Interest Rate Decision	India is expected to keep interest rates unchanged near 4.00% to boost the economy as the pandemic continues to impact the small and medium scale businesses
4-Dec	US Nonfarm Payrolls (Nov)	US Payrolls addition is likely to decrease further to 520k from previous number of 638k as second wave of covid infections triggered lockdowns in some states
4-Dec	US Unemployment Rate (Nov)	US Unemployment rate is expected to decline further towards 6.8% in Nov from previous 6.9% as previously high rate of unemployment is likely to adjust further
8-Dec	Japan GDP (QoQ) (Q3)	Japan Q3 GDP numbers are expected to come around -8.3% from previous 5.0% as coronavirus pandemic impacted the economy with travel restrictions and lockdowns
10-Dec	ECB Interest Rate Decision (Dec)	European central bank is likely to keep interest rates unchanged at 0% and to continue its policy response to the pandemic with liquidity, stabilisation and supporting the recovery
10-Dec	US Core CPI (MoM) (Nov)	US Core CPI is expected to remain unchanged at 0.2% due to slower than expected economic recovery is likely to keep inflation at lower levels
16-Dec	UK CPI (YoY) (Nov)	UK CPI is likely to decrease to 0.6% from previous 0.7% due to renewed travel restrictions and lockdowns slowed down the economy and kept prices lower
16-Dec	US Fed Interest Rate Decision	US Fed is expected to keep interest rate near zero for the longer term with in the target range of 0.0%-0.25%. A new economic rescue plan may be introduced to address the current situation
17-Dec	Euro Zone CPI (YoY) (Nov)	Euro Zone CPI is likely to remain unchanged in the negative territory around -0.3% as economic slowdown due to second wave of coronavirus infections is likely to keep inflation at lower levels
17-Dec	BoE Interest Rate Decision (Dec)	Bank of England is expected to keep interest rate at 0.1% for the longer term as renewed lockdowns due to second wave of Covid Infections halted the economic activities.



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Raj Deepak Singh BE, MBA (Finance), Mohit Agarwal BSc, MBA (Finance), authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities Limited. The author may be holding a position in currency derivatives as on date of release of this report. ICICI Securities Limited may be holding a proprietary position in currency derivatives as on the date of release of this report." This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. ICICI Securities Ltd and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities Ltd and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.