

December 31, 2020

Gold Outlook

Expected to sustain glitter...

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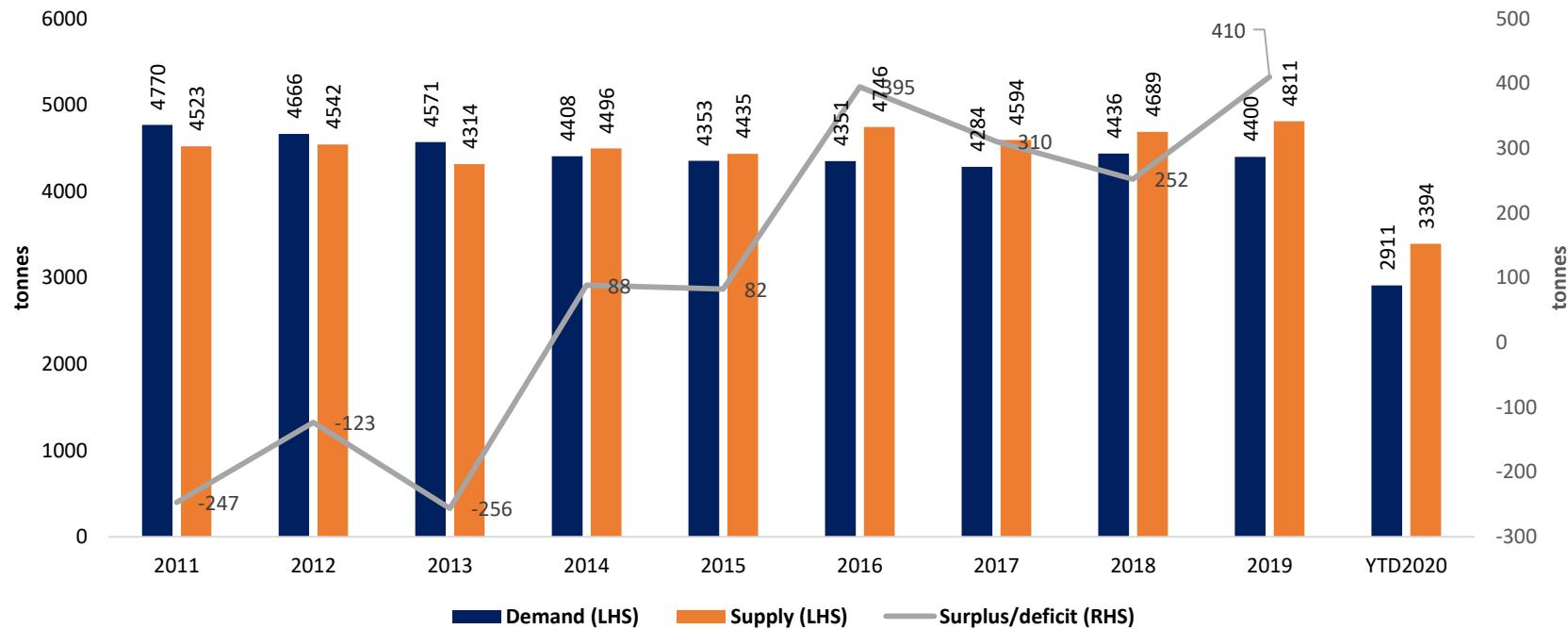
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Gold expected to sustain glitter...

- Calendar year 2020 has been an unprecedented year for most commodities on account of Covid-19 related uncertainties. While commodity prices did witness a downward slide in January-March 2020, the same saw a smart recovery during the remaining part of the calendar year. Yellow metal, gold, was no exception and saw its own share of both peaks, troughs during the year. In CY20, yellow metal prices plunged to a seven-month low in March 2020 and then witnessed a sharp rally rebounding to all-time highs during the latter part of the year. Uncertainty in global markets owing to spread of Coronavirus in Q1, Q2 of CY20 led to investors resorting to risk aversion, which fuelled the rally in gold prices to all-time highs of US\$2067 per ounce. As a whole, on a YTD basis till mid-December 2020, gold has given healthy double-digit returns of 24% in international markets and 28% in the domestic market
- In the midst of Covid-19 related uncertainty, during CY20, gold, by virtue of being a safe haven asset class, did attract good interest from both central banks across the globe and global gold ETFs. Furthermore, the weakness in the dollar index coupled with falling yields have also played the role of a catalyst in supporting positive momentum of gold prices. In the medium to longer term horizon, the accommodative monetary policy followed by majority of central banks coupled with expansion of balance-sheet with stimulus packages is likely to play a critical role in supporting gold prices. With regard to Covid-19 pandemic, while there have breakthroughs in vaccine development, however, availability and safety aspects for the same remain a key monitorable. Also, the recent surge in cases in Europe (especially in UK) has prolonged the uncertainty phase. Hence, this is likely to sustain interest in safe haven instruments like gold
- Gold has seen gains of 24% in rupee terms during CY20, its best year since CY11, boosted by unprecedented stimulus measures rolled out by governments worldwide to combat the economic impact of Covid-19, alongside low interest rates from central banks. Technically, it witnessed a breakout above the last nine year's base formation. Hence, the current breather should be used to accumulate for the next leg of the major up move towards US\$2800/oz levels over the next few years

Overview of global gold demand and supply

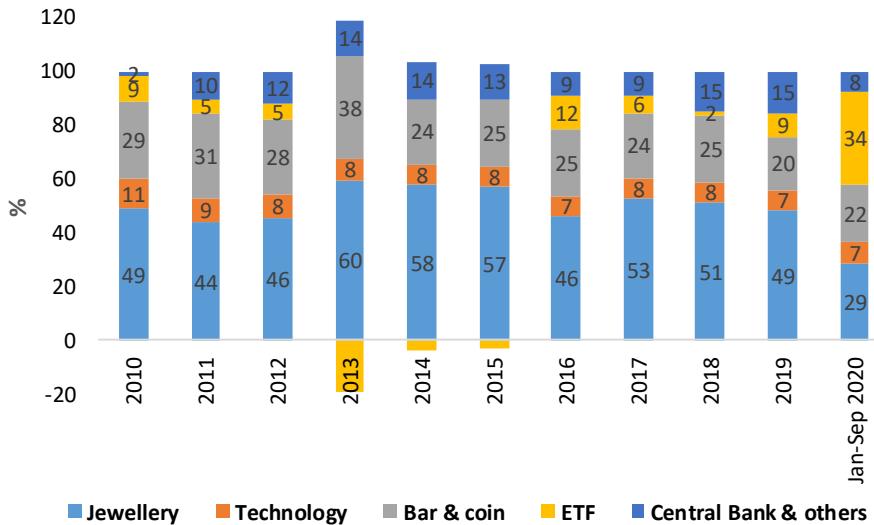
Global demand-supply dynamics



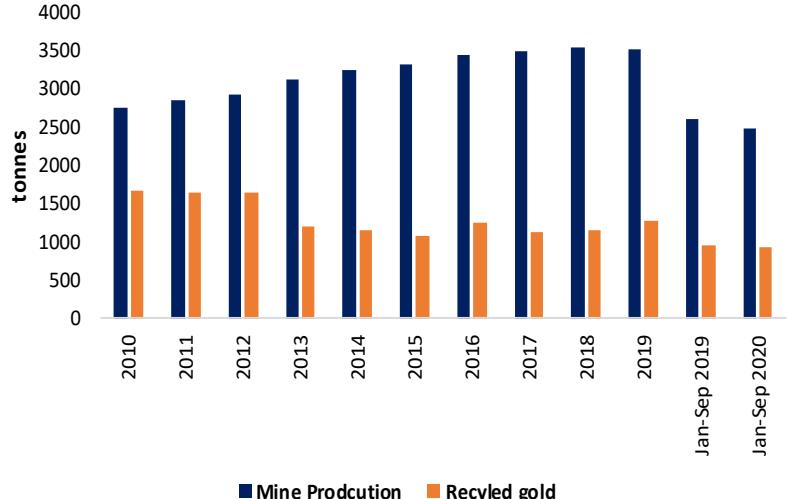
Source:: World Gold Council, ICICI Direct Research

Gold demand by segment, break-up of overall mine supply

Share of jewellery in overall demand declines due to pandemic



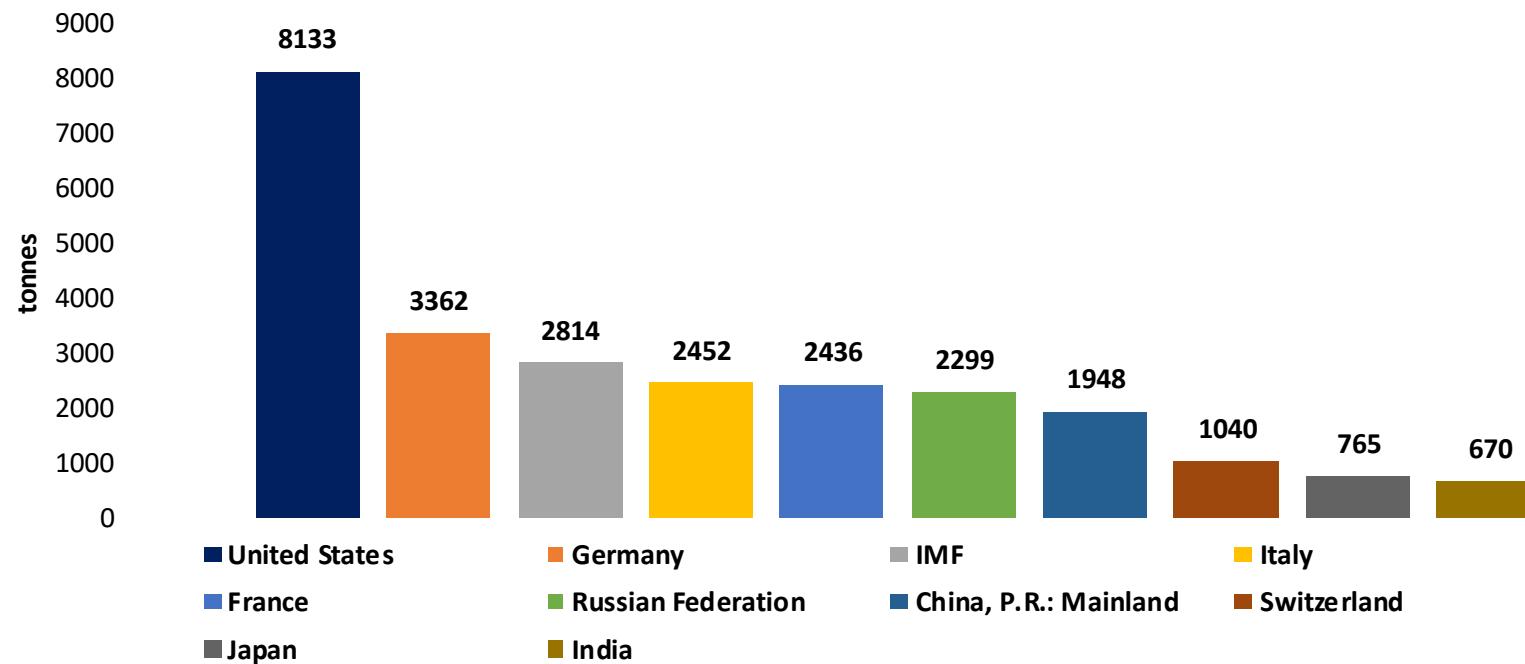
Supply trend remains flattish during period CY17-CY19



Record high gold prices and lockdown restrictions deterred consumer sentiments for physical gold. However, strong growth in global investment demand partly offset weakness. Jewellery demand fell 46% YoY in January-September 2020. Inflows in ETF were up a staggering 168% YoY (1003 tonnes were added globally in first nine months of CY20).

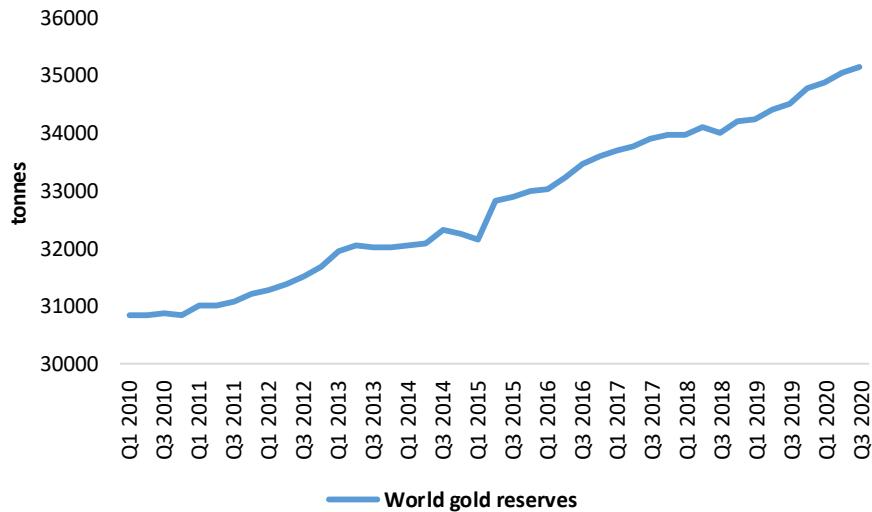
During first 9 months of CY20, mine production was down 5% YoY to 2477 tonnes, while supply from recycled gold remained constant YoY. Recycled gold supply in Q3CY20 was at 376 tonnes (highest quarterly total since Q4CY12)

Gold holdings of Top 10 countries as on December 2020



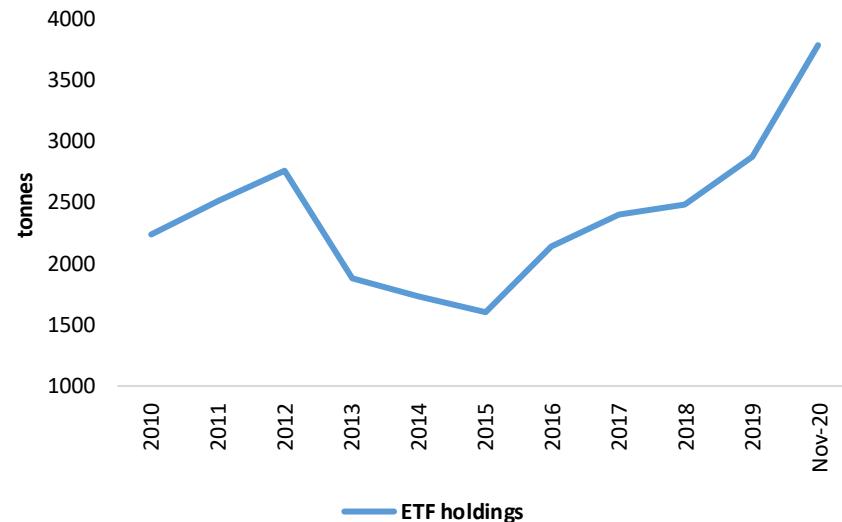
Gold demand from central banks, ETF at multi-year high

Central bank holdings for gold at record levels...



Central banks remained net purchasers on YTD basis, with net addition for first three quarters totaling to 220.6 tonnes.

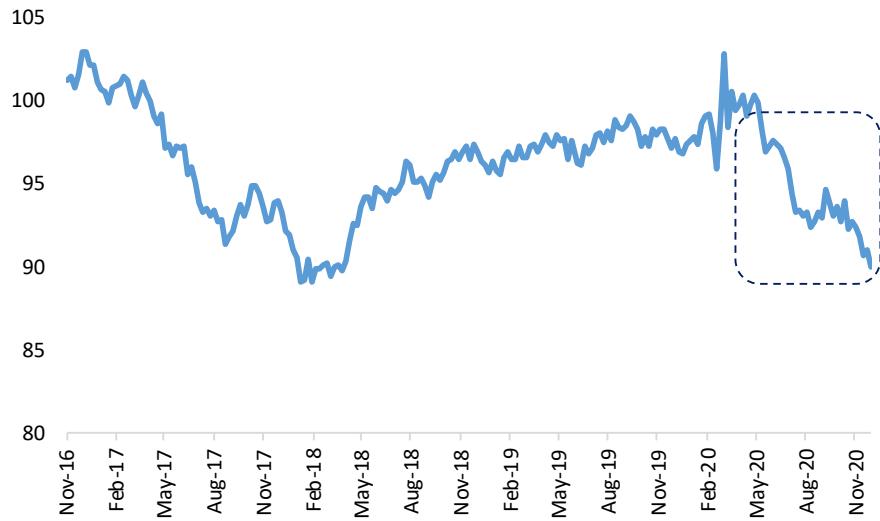
...with higher demand for gold ETF investments



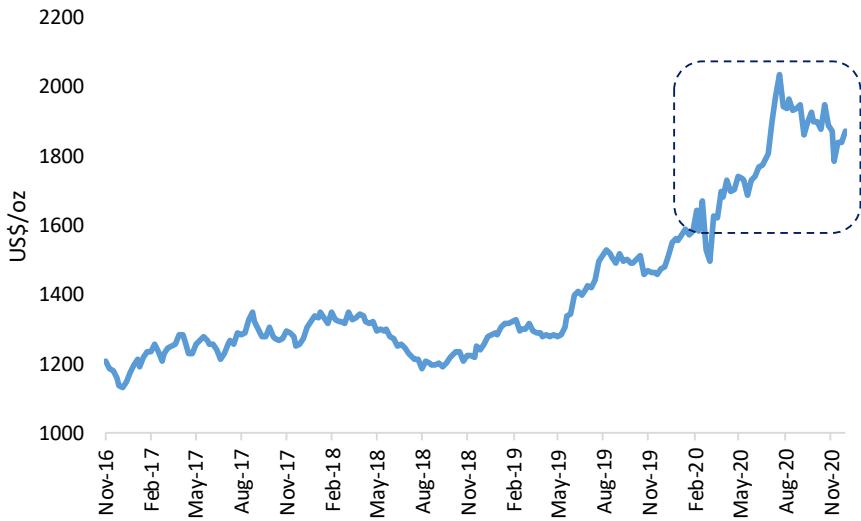
In CY20, total Gold ETF holding increased 32% YTD to 3793 tonnes (as on November 30, 2020).

Weakness in Dollar Index aids uptick in international gold prices...

Dollar Index



International gold prices



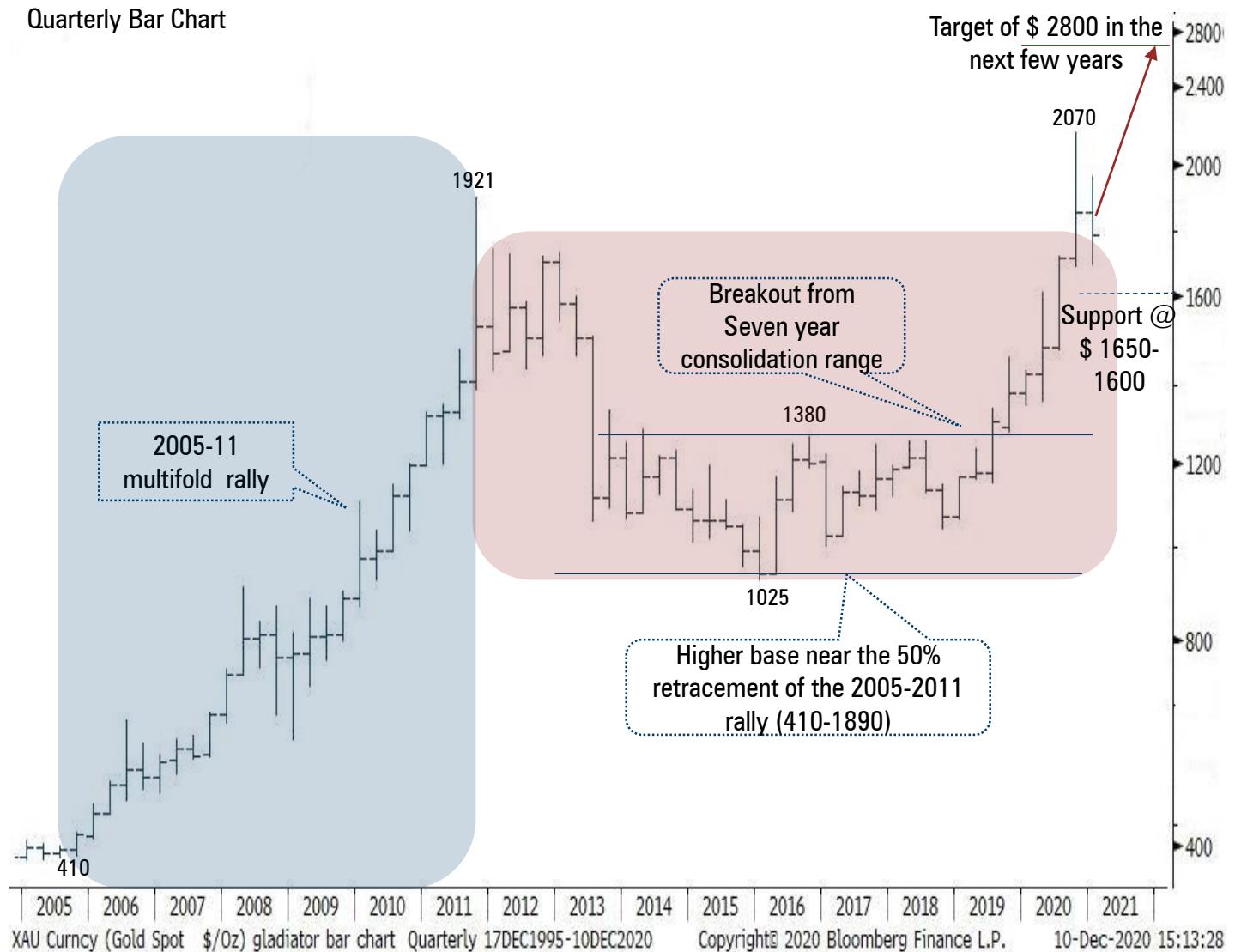
The weakness in dollar index played the role of a catalyst in supporting positive momentum of gold prices.

Technical Outlook

Gold spot (\$1880): Resumption of bull trend, current breather should be used to accumulate....

- Gold prices after a multi-fold rally in CY05-11 (\$410-1921), witnessed a base formation in the last nine years, thus forming a base for the next leg of the up move
- The base of the entire nine year consolidation is placed around the 50% retracement of the CY05-11 rally. A shallow retracement and higher base formation highlights a positive price structure
- In CY20, gold prices registered a breakout above last seven year's consolidation range (\$1380-1025) highlighting resumption of the multi-year rally
- Gold prices over the next few years are expected to head towards \$2800 as they are last nine year's range breakout (1921-1025=896 points) added to the breakout area of \$1921 signalling upside towards \$2817 levels (1921+896=2817)

Quarterly Bar Chart





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