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Gold prices to rise further amid rising geopolitical tension

MCX spot gold hit a one-month high of Rs29,313/10 gm on 13 April

BY AMISHAH
ami.s@livemint.com
MUMBAI

Even as international gold prices hit a five-month high last week, the outlook for the yellow metal is still robust, as heightened geopolitical tensions—with the US bombing Syria and Afghanistan—have triggered a flight to safety.

Last week, the US dropped the largest non-nuclear bomb ever used in a combat, in Afghanistan—killing as many as 92 suspected Islamic State militants. This comes after US-Russia relations hit another low after the Syria gas attacks on 4 April that prompted the US to launch missile strikes on a Syrian air base.

Also, the nervousness in the Korean peninsula supported the case for safe-haven assets. There were worries that North Korea could soon conduct its sixth nuclear test.

US President Donald Trump has warned against further provocations, sending an aircraft carrier group to the region as a show of force.

Gold futures for June rose to a five-month high of \$1,285.9/oz on 13 April, and the overall outlook for the yellow metal still looks bullish. This is still nearly 33% away from its record high of \$1,911.6/oz on 6 September 2011.

Other precious metals have also gained. While spot prices of gold have rallied 11.65% year to date, those of silver, platinum and palladium have added 16.43%, 7.76% and 16.98%, respectively year to date.

In the Indian market, MCX spot gold hit a one-month high of Rs29,313 per 10 grams on 13 April.

"We have been bullish on gold since November. The current geopolitical tensions make it even more attractive for now," said Kishore Narne, associate director, Motilal Oswal Commodities Broker Pvt. Ltd.

Narne said that globally, the demand for gold is coming in from central banks which are diversifying reserves. Central banks were net buyers of gold for a seventh year in 2016, though they bought the least



Demand for gold in India has risen because of the wedding season as well as the upcoming festival of Akshaya Tritiya. **BLOOMBERG**

since 2010, at 257 tonnes, a *Reuters* report said on 31 March.

The report also said *Thomson Reuters'* consultancy firm GFMS has forecast 250 tonnes of buying this year, with Russia continuing to drive purchases and China restarting reserve building after four months of no changes to its holdings.

The current rally in international gold prices was not reflecting commensurately in the domestic market, due to the recent appreciation of the rupee against the dollar, said Sugandha Sachdeva, assistant vice-president (metals, energy and currency research) at Religare Commodities.

The rupee has been rising on the back of strong fund inflows into financial markets. It is been on a broad uptrend since 23 January, and has risen 5.91% ever since to close at 64.41 per dollar on Thursday.

"Not only those tensions, but also the economic uncertainty around Donald Trump's deliveries compared to promises on the fiscal situation and the spending front, is also leading to some economic uncertainty, making investors look at safe-haven assets such as gold, more than before," added Narne, who sees gold climbing to \$1,380-\$1,420/ounce by the year end. Others seem to agree.

"Alongside, recent weakness in dollar index and the expectations that Fed may hike rates only gradually after latest comments from US

President, bode well for yellow metal prices," added Sachdeva.

Sachdeva pointed that there were concrete signs of demand picking up with the world's largest gold-backed exchange-traded fund, SPDR Gold Trust holdings' rising to a more than a month's high.

Demand because of the wedding season in India has started trickling in, and also the upcoming festival of *Akshaya Tritiya* on 28 April should further provide a boost to demand.

According to her, any dip in gold price towards Rs28,500 per 10 grams should be bought into.

"The price set up suggests if gold prices convincingly breach the Rs29,550 per 10 gm mark, they have the potential to rise to Rs31,550 per 10 gm level from a medium term perspective," said Sachdeva.

Not everyone was so optimistic though. "This is a temporary rise for gold, but it remains to be seen if it sustains," said Kumar Jain, vice-president of Shri Mumbai Jewellers Association.

Jain pointed that demonetisation had largely disrupted gold demand in India. "Till June, prices should hold firm in the range of Rs29,000-Rs30,000 per 10 grams due to wedding and *Akshaya Tritiya* demand, but I feel it will start declining in June and may hit Rs27,500 in mid-June," said Jain.

Reuters contributed to this story