

GOLD

Key Highlights -

- ❑ Gold prices started the year on a positive note in the first quarter of 2018 followed by the strong downside in the gold prices in the second and third quarter of 2018 keeping the investors away from the counter. During the last quarter Comex Gold prices rallied some 6% till date. We are seeing some safe haven demand emerging due to low prices and keeping the prices above 200 day moving average signaling further upside in prices in 2019.
- ❑ **Gold prices weakened during the year on account of looming trade war between US and China**, higher dollar and treasury yields and US Fed rate hike alarm put the pressure on gold prices this year. Gold prices witnessed a greater contradictory price movement between the MCX and international gold price due to weakness in Indian rupee. With the upcoming election next year, it is unlikely to witness any major appreciation in the rupee keeping the MCX Gold prices well supported at lower levels.
- ❑ **During the first half of the year, the demand for gold imports in India remained tepid while the imports slowly grew in the second half of 2018.** The latest import figure of October declined due to higher gold prices in India but going forward the demand will increase ahead of wedding season and higher international prices.
- ❑ **On the supply side, the mining sector had continued to see stronger output**, with further modest gains in the September quarter. The gold mine production has seen a quarterly rise of 2% at 875.3 tonne in the third quarter. The mine supply output in 2019 is expected to slow on supply growth.
- ❑ In Q4CY18 Gold price has rallied by 6% and has crossed its 200 day moving average. Fundamental demand drivers for gold are: Jewellery, Bar & Coin, Central bank purchases and ETF flows. Global jewellery demand has remained stable during the three quarter of 2018 with quarterly demand of about 965 tonnes. The global bar and coin market has grown by 28%. Central bank purchase has continued being strong with Russia particularly buying gold as the country is selling majority of its US treasury following its policy of de-dollarization. But ETF purchase has remained tepid with the global gold backed ETF witnessing quarterly outflow of 103 tonnes during the third quarter of 2018. Going forward mine supply output is expected to slow and if global growth reduces or there are any macro economic shocks, fresh ETFs purchases would be expected. **Comex Gold prices in 2019 are expected to remain positive and move higher towards \$1330-\$1360 per oz.**

Research Analyst**Sakina Mandsaurwala**

Sakina.mandsaurwala@narnolia.com

Dhwanik Shah

Dhwanik.Shah@narnolia.com

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Description	2016	2017	2018	2019
Total Demand	4387.6	4108.5	964.3	964.3
<i>Jewellery demand</i>	2059.3	2159.9	510.3	535.7
<i>Investment</i>	1595.5	1231.9	281.4	194.9
<i>Central banks</i>	389.8	374	89.4	148.4
<i>Technology</i>	323.4	332.8	83.3	85.3
Total Supply	4590.9	4398.4	1120.2	1161.5
<i>Mine production</i>	3263	3268.7	835.5	875.3
<i>Net producer hedging</i>	32.8	-30.4	-10	-20
<i>Recycled gold</i>	1295.1	1160	294.7	306.3

A significant increase in demand from the central banks has supported the global gold demand at lower levels. It saw a healthy rise in demand by 22% in the Q3 2018 at 148.3 tonnes. The major central bankers buying gold are Russia, Turkey and Kazakhstan. Russia has continued to grow its gold holding by 92.3 tonnes in the Q3 2018 as the country is selling majority of its US treasury and following its policy of de-dollarization.

The global gold backed ETF saw its first largest quarterly outflow since Q4 2016. During the third quarter of 2018, the ETFs declined by 103.2 tonnes from 13.2 in Q2 2018. This huge outflow from ETF was largely contributed by United States due to gains in equity market and strong economic growth. Although in the coming year we expect demand from this sector to improve on investor's safe haven buying

On the supply side, the mining sector had continued to see stronger output, with further modest gains in the September quarter. The gold mine production has seen a quarterly rise of 2% at 875.3 tonne in the third quarter. This is the highest level of quarterly production staying above the five year quarterly average of 809.8 tonne as the new mine projects are pushing the production to an all time high. The production declines in China, South Africa, Indonesia and Peru were offset by the production increases in Mali, Papua New Guinea, United States and Canada. The mine supply output in 2019 is expected to slow on supply

Gold performance in relation to us dollar, dow jones, bond yields

Looking at the above chart, Gold prices are in a negative correlation with dollar index, equity market and treasury yields. US dollar at the start of the year remained strong on US economic optimism and on expectation over continuous rate hike by US Fed. However, at present the economic outlook turns weak due to political uncertainty and weakness in equity markets. The upside in dollar remains limited in the future as the US Fed changes its future path of rate hikes. Fed could even stop its monetary tightening cycle if the economy deteriorates further.

Economic policy

Fed started to unwind its balance sheet will likely put the downward pressure on dollar and supporting bullion prices in 2019. US expected to slow in 2019. GDP is projected to slow from 3.0 percent in 2018 to 2.3% in 2019 and 2.0% in 2020 and inflation is forecasted to increase in 2019 at 2.0% from 1.9% in 2018. US Federal funds rate is projected to increase from 2.4% in 2018 to 2.9% in 2019 and 3.1% in 2020 which means that Fed may hike its interest rate by 2 times in 2019 and once in 2020

Outlook:

Gold prices will remain positive in the first half of 2019 due to ongoing global slowdown worries and geo-political uncertainty. Going forward, with US Fed reducing its future interest rate hike projection and downgrading US growth prospects into 2019, we remain of the view that US dollar will show limited upside in the coming year supporting dollar-priced commodities. Domestic gold demand from rural sector is also expected to rise on improving purchasing power of farmer due to higher prices of MSP for crops announced by the government. We expect Comex Gold prices to remain positive and move higher towards \$1330-\$1360 per oz in the coming year.

Disclosures: Narnolia Financial Advisors Ltd.* (NFAL) (FormerlyMicrosec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH30002407 valid till 01.12.2020. NFALis engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, it's associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and it's associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Terms & Conditions: This report has been prepared by NFAL and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential 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 NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. 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. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

*The name of the Company has been changed from "Microsec Capital Limited" to "Narnolia Financial Advisors Limited" pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of "Narnolia Financial Advisors Limited" pursuant to change of control is under process with SEBI.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFIRegistered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited-MCX/NCDEX Commodities Broker: INZ000051636 || Narnolia Velox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited-IRDA Licensed Direct Insurance Broker (Life & Non-Life) License No.134 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL)and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential 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 NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. 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. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.