

## 2019 Strategy Notes

Financial asset/index	2018 Returns
Zinc	-25.51%
Brent	-19.55%
Aluminum	-18.83%
DAX	-17.97%
Lead	-17.94%
KOSPI	-17.28%
Copper	-16.74%
Nickel	-14.31%
FTSE 100	-12.41%
Nikkei	-12.08%
Silver	-9.41%
S&P500	-7.03%
Dow Jones	-6.70%
Gold	-1.94%
Nifty 50	3.44%

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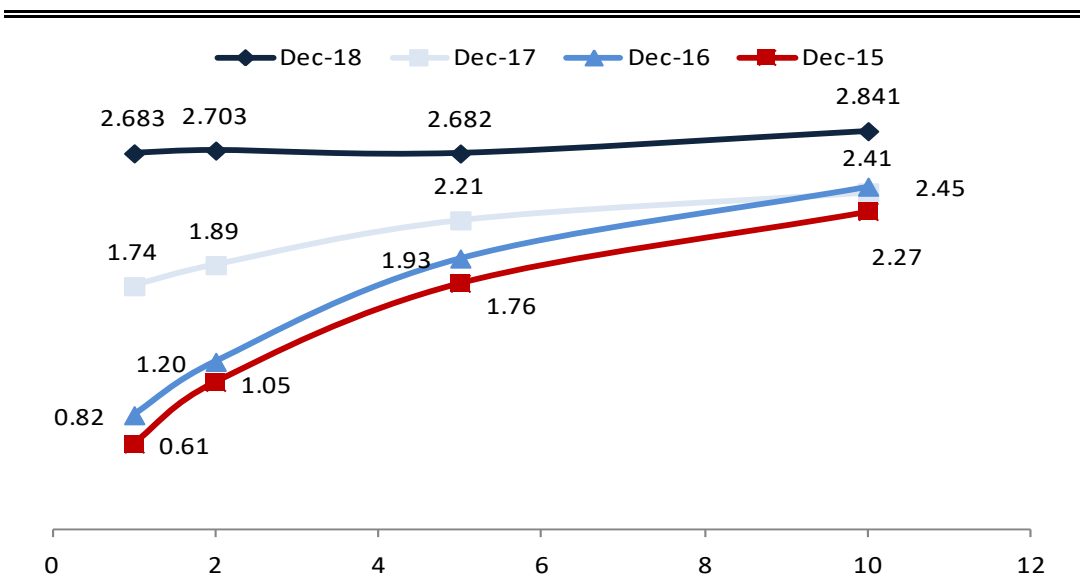
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### Key Highlights :

- ❑ The year 2019 is starting amid a highly pessimistic background across asset classes, across geographies. During the last few months, **major equity indices have fallen by 15-25% from their respective peaks**. US equity index NASDAQ is down by 24 %, Dow by 19%. Among major European equity indices, DAX is down by 21%, CAC is down by 17%. Asian major equity indices like NIKKIE and KOSPI are down by 21% each. Among commodities, Crude is down by 41%, Zinc, Nickel, and Aluminum by 30%. Nifty is a major outperformer in the sense that Nifty is down by less than 10% from its peak.
- ❑ **The US has recently witnessed an inverted yield curve**, the 5 year and 2 year yield spreads have shown inversion. While this inversion does not cause much concern, the main worrying sign would be the conversion of the the 10 year and 2 year yield spread which usually happens after this inversion. The 2008 crisis was also preceded by the yield curve inversion which asks for much detailed attention to the US yield curve in the coming year.
- ❑ **Disruptive political and administrative discourse along with trade conflict continues to be a major overhang**. At this delicate time, ECB has announced the discontinuation of its EUR 30 billion a month bond buying program after buying nearly EUR 2.6 trillion bonds. **The concern here is that recent data suggest a sharp slowdown in Italy and Germany**. In a global slowdown, Europe and its banks remain vulnerable to liquidity shock and that is the key market worry going ahead.
- ❑ **China's GDP growth has consistently been revised downward**. Over the last three months, China's auto sales have seen decline of 11%. **Only positive here is continued real economic growth in US**. Unemployment rate in US remains at an all-time low while the wage growth is at a nine-year high. In this sense, the first half CY19 should see financial market gaining back some stability if the real economy continues to remain robust. And that is the key data to track closely.
- ❑ **Global financial markets- equity, commodities etc. should be entering low volatility- low return phase**. We had low volatility –high positive return in 2017. 2018 was high volatility –high negative return market. And now, 2019 will be low volatility- low return market.
- ❑ Forthcoming **general election will impact market volatility but not the return**. In 2018, major moves of our market were more to do with global issues like oil price volatility or stock valuations and not to do with any policy issues and this should continue in 2019. We are past the major policy disruption period in India with demonetization and implementation of GST. Some 25-30 bps changes in fiscal deficit estimate are not large swing events for the market at least at this point in time.
- ❑ Bond yield is expected to soften below 7%. Earnings growth for Indian corporate in FY20 is expected to be robust 21%. Immediate Nifty target for 2019 is 11800 at 19 times FY20 EPS of 620. At cap and theme levels we expect very similar price returns as earnings growth of various subsection of the market whether at cap level or at theme level will be quite similar.

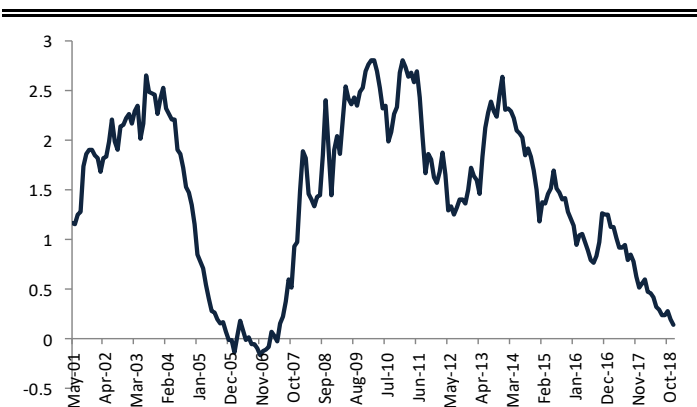
# Financial Market suggesting recessionary trends

Exhibit 1: US Bond yield curve slowly inverting over the years



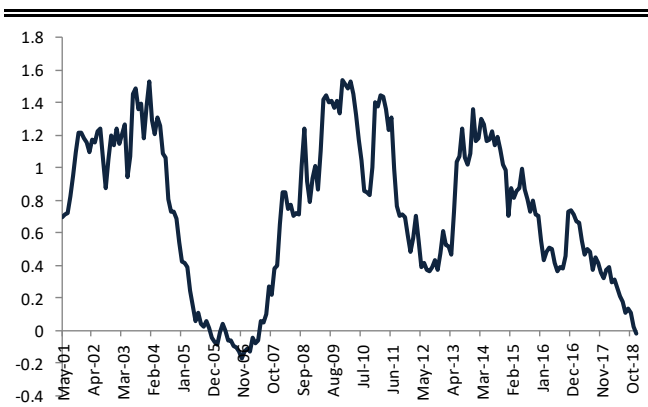
Source: Investing.com

Exhibit 2: 10 year and 2 year spread



Source: Investing.com

Exhibit 3: 5 year and 2 year spread



Source: Investing.com

The bond yields have forever remained great forecasters of the economic progress of a country. Historically whenever a recession in the United States has been imminent it has always been preceded by an inverted curve in the bond yields.

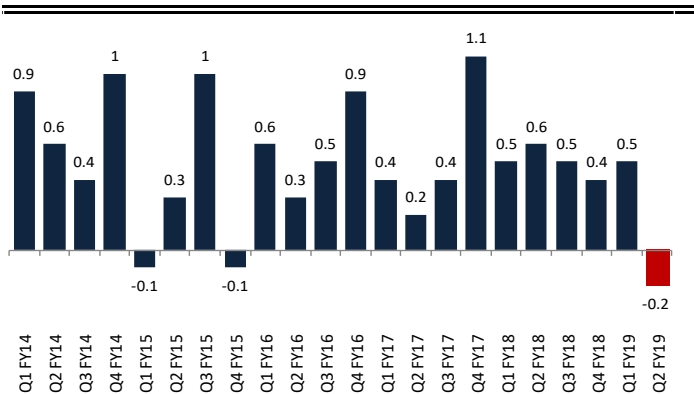
To be specific an inversion in the 5 year and 2 year spread has not caused much of a worry while the 10 year and 2 year spread signals more distress in the market as it shows a more than 80% inversion in the curve

Presently the US 5 and 2 year yield curve have inverted while the 10 year yield is closest to the 2007 inversion now, since the great recession of 2007.

The yield turning negative might suggest a n incoming recessionary phase in the economy.

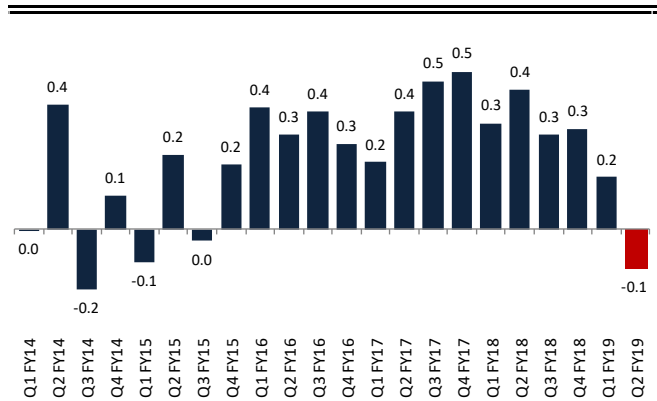
# Europe's Real Economy showing strain

Exhibit 4: Germany GDP growth



Source: Investing.com

Exhibit 5: Italy GDP growth



Source: Investing.com

The European economic numbers are a bit supportive towards the recessionary phase in the continent. After average growth rates over the quarters, Europe's largest economy, Germany, is facing severe distress in the economy which is evident from its latest negative GDP growth figures. The forward looking growth figure estimates have also been downgraded due to political uncertainty surrounding the Brexit deal and weakening exports.

**The exports weakened** due to a sluggish demand for automobiles in the world after the infamous Volkswagen scandal. The countries want less pollution emitting cars and have lost some faith in Volkswagen.

Alongside Germany, the fourth largest European economy also hit the blunt, the unemployment rates have been rising alongside fall in manufacturing for 5 continuous months. The country is also burdened with a credit crunch and fiscal deficit.

## MSCI Global Index

Calendar year	Returns
2011	-11%
2012	7%
2013	15%
2014	6%
2015	-3%
2016	12%
2017	18%
2018	-11%

China's GDP growth falls to the lowest in nine years. The trade war with the US have been proved a rather costly affair for the Chinese economy. The country has also been under a huge debt with credit tightening policies stopping the growth.

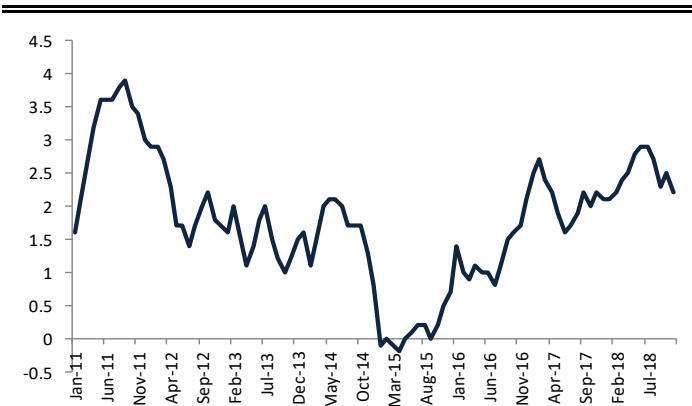
Shanghai's stock market has fallen by almost a quarter in the year 2018 while the Yuan has slipped 9 per cent against the dollar.

The dampening market conditions have already hit China as the FPI inflows to the country have been slower as compared to India after nearly 2 decades.

India received \$38 billion against \$32 billion by China.

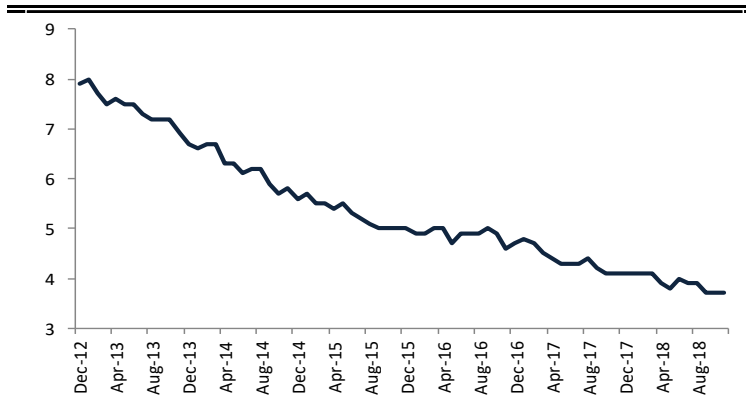
# US Real Economy still strong

Exhibit 6: US Consumer Price Index



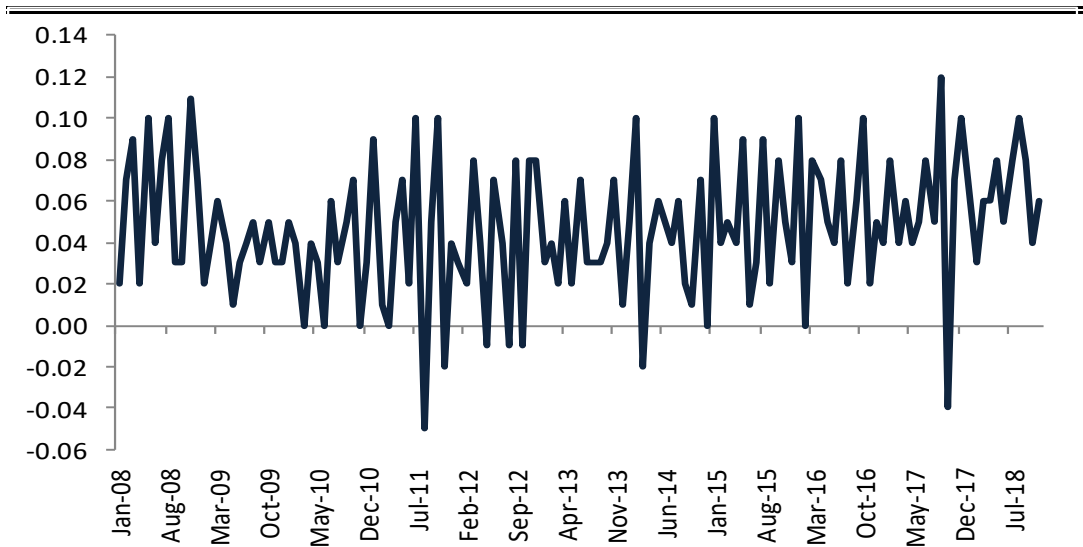
Source: Investing.com

Exhibit 7: Depleting US unemployment rate



Source: Investing.com

Exhibit 8: US Wage growth in private sector



Source: Investing.com

The United States macroeconomic numbers have seen positivity in the recent past. The once out of reach US consumer price index numbers have once again stabled to around 2% level which is in the target range of the Fed. The unemployment number in the US has significantly narrowed down and does not possess an economic threat to the country.

Given the cooling and under control inflation and the pressure from depleting Dow Jones index, the US Fed has also downgraded their rate hike views. Earlier they had expected to raise hikes 3 times in 2019 but the latest minutes of the Fed's monetary policy suggest only 2 rate hikes in the year.

This would help the world to breathe a sigh of relief and the bourses will be expected to fire up soon in the beginning of 2019.

### Commodities- Year wise % return

<b>commodity</b>	2012	2013	2014	2015	2016	2017	2018
Aluminium		7%	5%	-13%	16%	25%	-5%
Copper	9%	6%	-14%	-21%	19%	23%	-8%
Lead	18%	7%	-14%	1%	13%	16%	-14%
Nickel	-6%	-11%	8%	-39%	14%	13%	-6%
Zinc	13%	14%	8%	-22%	62%	22%	-14%
Crude	-1%	-1%	-48%	-35%	52%	-18%	-12%

### Yearly price-swings(high to low) of commodities(%)

<b>commodity</b>	2012	2013	2014	2015	2016	2017	2018
Aluminium	21	18	19	27	18	26	27
Copper	17	19	15	31	27	24	20
Lead	24	21	21	27	35	22	28
Nickel	30	29	37	47	35	32	32
Zinc	20	16	19	38	49	26	36
Crude	29	18	50	47	51	33	42

### Volatility of Commodities over the years( annualized % volume)

<b>commodity</b>	2012	2013	2014	2015	2016	2017	2018
Aluminium	20	17	15	18	16	15	21
Copper	21	18	13	22	18	18	18
Lead	27	19	16	23	24	24	22
Nickel	25	19	27	32	32	29	27
Zinc	22	16	16	25	27	23	24
Crude	23	17	20	45	44	24	30

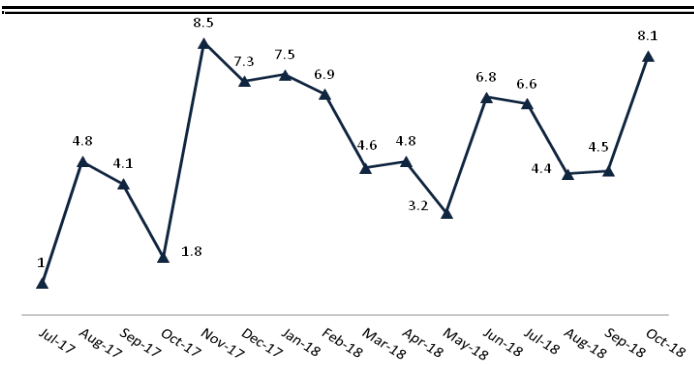
The volatility of the base metals and their prices are closely associated with each other. The years 2012 and 2013 have been years of low volatility with moderate returns from the commodities while years of 2014 and 2015 have seen muted commodity prices movement with the increased volatility in the prices. And the recent year of 2017 and 2018 have witnessed high returns coupled with high volatility.

Seeing this trend we believe the calendar year of 2019 will witness very low volatility in the prices. The demand for all the commodities will be subdued for the coming year which will help the prices of the commodities to be confined to a certain range without much drift. The ongoing world tensions will help keep the supplies tight and will provide both the support and resistance to the commodity prices.

We expect 2019 to be of low volatility and low return because the US real economy is growing.

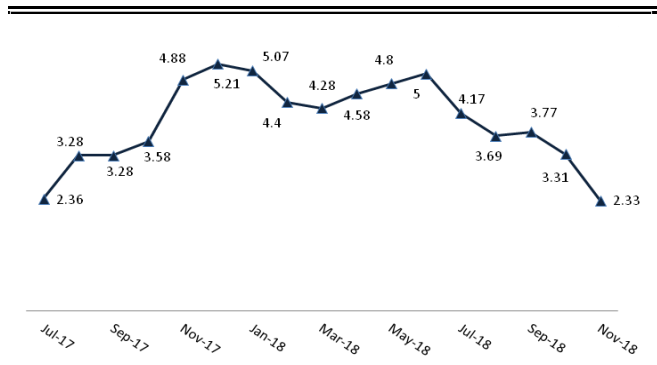
# Domestic Macros improving

**Exhibit 9: Index of Industrial Production**



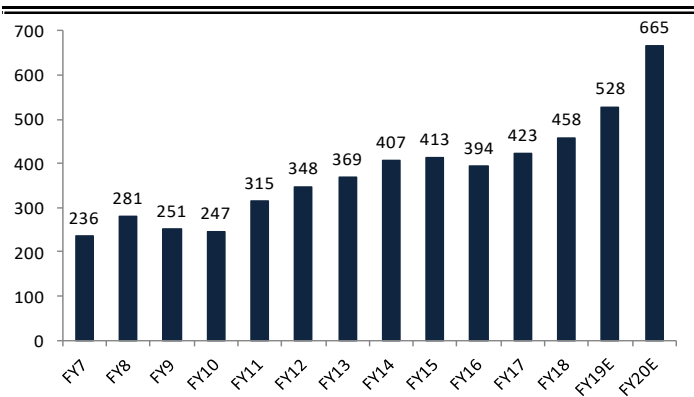
Source : MOSPI

**Exhibit 10: Consumer Price Index**



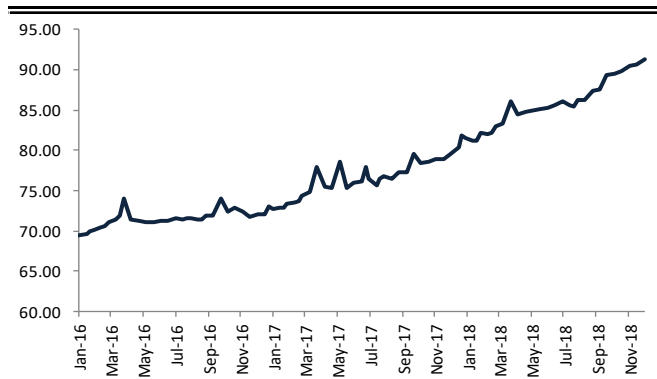
Source : MOSPI

**Exhibit 11: Nifty EPS**



Source : Narnolia Research

**Exhibit 12: Non-food bank credit (000' billion)**



Source : RBI

Indian macro economic conditions seem pretty good . The General Elections are expected to increase the volatility in the market but the returns should not get much affected. IIP was at a 11 month high giving the country hope that the manufacturing and mining activities are flourishing after the ill effects of demonetization and GST. The CPI is back under the RBI's comfortable level of 4%.

The credit growth in the country has been ever increasing showing no signs of sluggishness in the industry and the Nifty earnings outlook still remain decent. These things combine to make up for a stable macroeconomic condition in the country despite the world falling under growth turbulences.

# FY20 to be a strong earnings season

Constituents	FY18(Adj PAT)	FY19(E)	FY20(E)	Growth FY19	Growth FY20
ADANI PORTS	3845	3983	4702	4%	18%
ASIAN PAINTS	2098	2120	2466	1%	16%
AXIS BANK	276	6025	12394	81%	32%
BAJAJ-AUTO	4251	4308	5029	1%	17%
BAJAJ FINANCE	2647	3791	5011	43%	32%
BAJAJ FINSERV	2741	3554	4423	30%	24%
BPCL	8503	8800	6800	3%	-23%
BHARTI AIRTEL	2977	-1100	-1200	PL	9%
INFRATEL	2520	2190	2020	-13%	-8%
CIPLA	1495	1550	2130	4%	37%
COAL INDIA	7020	16530	17190	39%	4%
DRREDDY	1070	1710	2070	60%	21%
EICHER MOTORS	1960	2405	2964	23%	23%
GAIL	4618	6640	7660	44%	15%
GRASIM	2030	2860	3080	41%	8%
HCL TECH	8721	9959	10646	14%	7%
HDFC BANK	17847	21029	26984	20%	28%
HERO MOTOR CORP	3697	3744	4386	1%	17%
HINDALCO	4309	6189	6167	44%	0%
HINDPETRO	7218	6590	6350	-9%	-4%
HINDUSTAN UNILEVER	5237	6402	7688	22%	20%
HDFC	12160	8980	10000	-26%	11%
ITC	11223	12800	14745	14%	15%
ICICI BANK	6777	5101	14556	-25%	149%
INDIA BULLS HOUSING FIN	3847	4288	5401	11%	26%
IOC	22626	14910	15320	-28%	6%
INDUSIND BANK	3606	4227	5784	17%	37%
INFOSYS	16100	16172	17846	0%	10%
JSW STEEL	6113	8314	6709	36%	-19%
KOTAK BANK	6200	4700	5930	-24%	26%
LARSEN & TOUBRO	7881	8540	10740	8%	26%
M&M	4356	4677	5302	7%	13%
MARUTI	7881	8684	10665	10%	23%
NTPC	10343	11280	13120	9%	16%
ONGC	22859	25574	26611	12%	4%
POWER GRID	8239	9690	10580	18%	9%
RELIANCE	33847	39999	48133	18%	20%
SBIN	-4556	4801	31615	PL	389%
SUN PHARMA	3240	4210	6140	30%	46%
TCS	25880	31656	34595	22%	9%
TATA MOTORS	7116	1460	7600	-79%	414%
TATA STEEL	8200	11000	8800	34%	-77%
TECH MAHINDRA	3786	4282	4874	13%	14%
TITAN	1118	1464	1823	31%	25%
UPL	2093	2340	2580	12%	10%
ULTRACEMCO	2571	2336	3051	-9%	31%
VEDL	10795	11647	14497	8%	24%
WIPRO	8003	8336	9620	4%	15%
YESBANK	4225	4771	6322	13%	33%
ZEEL	1343	1452	1816	8%	25%
<b>NIFTY PAT ( Free float PAT )</b>	<b>188557</b>	<b>206414</b>	<b>251380</b>	<b>9%</b>	<b>22%</b>

# Technical Nifty outlook for the calendar year 2019

Nifty is expected to trade between 10000 and 12300 based on rising channel that has unfolded over the last five years

## 2018 recap with technical analysis:

Nifty after oscillating between 10,000 and 11,700 is ending the year near the midpoint of this range resulting into above 3% year on year growth. During 2018 calendar year, Nifty has received strong support from 10,000 levels twice once in March when initial period of sharp selling in mid and small cap stocks started and secondly during October when liquidity crisis in money market was at its peak.

While positive divergence in MACD had created market reversal in March, strong positive divergence in RSI on daily chart has caused the recent smart bounce back in Indian market. Divergence followed by a long green (bullish) candlestick has confirmed the reversal of prices both the time. Yearly high was made when RSI showed a negative divergence on the daily chart accompanied by a large red (bearish) candlestick. Also a small zone between 10850- 11000 acted as strong supply zone during May-June and now during November-December 2018.

Exhibit 13: Nifty trading in range of 10000-11760 in 2018



## Technical outlook for 2019:

Going forward for 2019, the high and low of 2018 are major support and resistance for the market. **Technically, Nifty in 2019 is expected to trade between 10,000 and 12,300 based on rising channel that has unfolded over last five years.** Key levels for the calendar year 2019 are: 10,000- 10,400-10,600-11,084- 11,700 and 12,400.



**Up-trend continuation with rising channel:**

Nifty is trending in a rising channel almost from last five years, indicates uptrend unless price breaches lower trend line which is placed around 10000 marks. Market should continue it's up move towards previous high (11760) and upper trend line of rising channel(12300); however rally will accelerate only above 11084 levels which is 61.8% Fibonacci retracement of recent fall and previous swing top too.

**Exhibit 14: Nifty trending in rising channel in weekly chart**



On contraryside, a decisive close below red trend line (10400) will push prices towards strong base of 10000.

**200 DMA & 50 DMA:**

Nifty is trading above 20 DMA (10780), 50 DMA (10600) and the most important 200 DMA (10775), implies short term, mid-term and long term trend is bullish. However major hurdle is supply zone & 100 DMA trading around 10950 levels, and sustaining above mentioned levels, index can extend this uptick till previous high (10760).Majority of the short term technical parameters on daily chart are indicating bullish bias whereas occurrence of Bullish crossover of 20 DMA & 50 DMA is also supportive for up move in mid-term. At the same time one of the most popular trading system Parabolic SAR has also given bullish signal.

**Exhibit 15: Nifty moving averages & Parabolic SAR**



### Trendline support & RSI :

Intermediate supports are provided by rising support line S1 as indicated in below chart is currently placed around 10,400; however immediate resistance is last three month's high placed at 11,084 above which prices can surge higher towards 11,760/12,300 marks. Monthly RSI is trading above 50; signifies long term trend positive and a fresh rally will begin above 11,050 levels. ADX trading at 32 mark and +DI above -DI also set a positive tone for strength in bullish trend. On down side index will give a fresh break down on a decisive closing below 10,400 levels (S1 line) whereby it can extend its fall towards previous strong base of 10,000.

Exhibit 16: Nifty monthly Candlestick Chart



### Conclusion:

- ❑ Technical target for Nifty in 2019 is 12,300
- ❑ Nifty's short-term, mid-term & long term trend is positive, and immediate resistance is at 11,084 above which it can surge higher till 11,760/12,300 levels
- ❑ 10,600 is immediate key support for Nifty and overall movement is likely within the range of 10,000 & 12,300 levels. Meanwhile, to retain bullish bias Nifty needs to sustain above 10,400, and monthly closing below it, shall set a tone for a mid-term selloff to the levels of 10,000.

## Key Highlights :

- ❑ Base metals after making highs during first half of 2018 fell 20-30% in the second half of 2018. While supply tightness and environmental concern related plant shut down in China were reason behind the initial rally. And improved supply due to reopening of many production lines and demand shrinking due to lower auto sales in China and US were the reasons behind recent decline.
- ❑ **Aluminum:** During the January-November period of 2018, production has increased by 1.4% to 58.82 million tonnes. US have lifted sanctions on Rusal, the world's largest aluminum producer and strike has ended at Alcoa's Australian alumina refinery.
- ❑ On the contrary, China's biggest aluminum producers are discussing production cutbacks of 800,000 tonnes and LME aluminum inventories stands at just 1.2 million tonnes.
- ❑ We expect aluminum to remain bearish towards \$1,820 per tonne for the first quarter of 2019 on the current oversupply worries though production cut may stabilise it in the second half of 2019.
- ❑ **Copper:** Global copper production has increased due to end of mines strike in Indonesia and Chile. For 2019, world refined copper consumption is expected to be 24,890 metric tonnes implying narrowing of deficit to 65 thousand tonnes.
- ❑ Looking at the market fundamentals and the current state of the economy, we expect Copper prices to remain weak unless any supportive fiscal and monetary measure comes from China to help the economy grow.
- ❑ We expect copper prices to trade in a range of \$5700 per tonne to \$6250 per tonne.
- ❑ **Lead:** Global Lead market is expected to turn into surplus of 50,000 tonnes from deficit of 120,000 tonnes in 2018. The mine supply is expected to increase by 4.1% in 2019 as some mine supply is likely to come on-stream from Coeur Mining's Silvertip mine in Canada and Vedanta's Gamsberg.
- ❑ China contributes around 40% to the world's lead demand but tight environment inspection has put production limitation.
- ❑ During Q1 2019, we expect MCX Lead prices to trade positive on lower Chinese production but during the second half of 2019 we expect Lead prices to witness selling pressure on surplus scenario and to decline towards \$1800 per tonne.
- ❑ **Nickel:** Nickel deficit in 2019 will fall to 33000 tonnes from 146000 tonnes in 2018 due to rising mine supply from Indonesia Philippines and China. But Nickel demand in long term is expected to increase from electric vehicle sector and lithium-ion batteries.
- ❑ Also inventories have fallen, Shanghai stocks stands at just 14,517 tonnes, down from a 2016 peak of above 100,000 tonnes. On the other side, LME stocks have fallen by 41% since the January 2018. We hold a bullish outlook in Nickel for 2019 with price target of \$13250 per tonne.
- ❑ **Zinc:** Global zinc market is expected to wipe out its deficit in 2019. Global zinc mine production will increase by 6.5% in 2019 as strong prices in past have influenced zinc miners to bring the idled capacity back online.
- ❑ Century mine and Dugald River mine is likely to expand its output capacity by 250,000 tonnes and Rampura Agucha mine in India will add 100,000 tonnes. Vedanta's mine in South Africa has plans to double its capacity in 2019.
- ❑ We expect LME Zinc prices to remain weak and move towards \$2350 per tonne.
- ❑ US-China trade conflict further added to the negative sentiment. Going forward, slowing Chinese economy remains a key concern. Lower inventory is the key support. Key trackable for 2019 is – resolution of US –China trade conflict and announcement of stimulus in Chinese economy, if any.
- ❑ **We have a positive view on Nickel and negative view on Lead and Zinc. Copper and Aluminum are expected to maintain downward trajectory**

## Key Highlights :

- ❑ **Gold-** 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.
- ❑ **Silver:** the current Gold Silver ratio is likely to support silver prices in the coming year. We expect Comex Silver to remain moderately bullish in the coming year and expect prices to average \$16.2 per oz and move higher towards \$16.8-\$17.5 per oz in 2019.
- ❑ **Crude-** During the first half of 2019, Brent crude price is likely to move in the range of \$48-\$60/bbl. Some bounce back in January can come on account of expected lower supplies from Canada and OPEC planned production cut.
- ❑ **Natural Gas-** Overall, our outlook remains positive for natural gas prices. We maintain a buy on dips strategy in Nymex Natural gas prices and expect prices to trade higher towards \$2.8-3.2 per mmbtu in 2019.

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. During the last quarter Comex Gold prices rallied some 6% as we see 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.

Description	2016	2017	Q218	Q318
<b>Total Demand</b>	<b>4387.6</b>	<b>4108.5</b>	<b>964.3</b>	<b>964.3</b>
Jewellery demand	2059.3	2159.9	510.3	535.7
Investment	1595.5	1231.9	281.4	194.9
Central banks	389.8	374	89.4	148.4
Technology	323.4	332.8	83.3	85.3
<b>Total Supply</b>	<b>4590.9</b>	<b>4398.4</b>	<b>1120.2</b>	<b>1161.5</b>
Mine production	3263	3268.7	835.5	875.3
Net producer hedging	32.8	-30.4	-10	-20
Recycled gold	1295.1	1160	294.7	306.3

#### Demand & Supply:

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.

Global jewellery demand has remained stable during the three quarter of 2018 as compared to the last year rising only by 1%. Total jewellery demand in the third quarter increased by 6% yoy at 535.7 tonnes. Jewellery demand contributes almost 55% to the global gold demand. Therefore any major increase or decrease in demand from this sector affects the entire demand chain. The global bar and coin market saw significant growth rising 28% year on year. The demand increase was seen in China and India both rising 25% and 11% respectively.

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 growth

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### **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. 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.

Silver prices have restrained from buying in the year 2018 due to subdued global outlook and stronger dollar. Comex Silver prices have remained in the downward trajectory since the start of the year from \$17.52 per ounce in January 2018 to the low of \$13.98 per ounce in the month of November 2018. Also, due to weakness in the base metals complex, silver prices failed to show any upside in 2018.

<i>Description</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
<b>Total Demand</b>	<b>1155.1</b>	<b>1033.1</b>	<b>992.8</b>	<b>963</b>
<i>Jewellery demand</i>	<i>280.7</i>	<i>249.4</i>	<i>254.4</i>	<i>252.9</i>
<i>Investment</i>	<i>291.7</i>	<i>207.4</i>	<i>142.1</i>	<i>124.8</i>
<i>Industrial Fabrication</i>	<i>582.6</i>	<i>576.3</i>	<i>596.3</i>	<i>585.4</i>
<b>Total Supply</b>	<b>1044.1</b>	<b>1010.6</b>	<b>995.2</b>	<b>998.4</b>
<i>Mine production</i>	<i>895.1</i>	<i>888.6</i>	<i>852.1</i>	<i>865.5</i>
<i>Other</i>	<i>149</i>	<i>122</i>	<i>143.1</i>	<i>132.9</i>
<b>Deficit/Surplus</b>	<b>-111</b>	<b>22.5</b>	<b>2.4</b>	<b>35.3</b>

#### **Demand & Supply:**

Silver market is expected to remain in surplus for the consecutive second year in a row. This surplus was created due to increase in mine production by 1.6% which attributed to lower scrap supply. Physical demand for silver is expected to reduce by 3% in 2018 dragged lower by the fall in the retail investment. Coin and bar demand contracted by 12% at 124.8 million ounce. The investment demand in the physical market is the largest driver of silver demand. The demand from jewellery and silverware remains subdued due to demand softness in China and India. The usage of silver from the industrial fabrication accounts for more than 60% of the total silver demand. The industrial fabrication demand will see a fall by a smaller figure of 1.8% in 2018.

#### **Gold Silver ratio**

The gold/silver ratio has risen to 86.56 in November 2018, which is well above its long-term average of 60. This suggests that silver is underpriced relative to gold and that Silver prices could outperform Gold prices as and when precious metals start to rally. Looking at the above chart, silver prices and the Gold Silver ratio is negatively co-related and in the current scenario, the ratio is standing near its record high while Silver prices are sitting near lows of 2015, signifies Silver prices are set to rebound sharply in 2019

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### **Monetary Policy Changes**

US monetary policy is likely to see some reduction in number of rate hikes in 2019, with only two more rate hikes in 2019 and just one in 2020. On the contrary, ECB ended its QE program in 2018 and 2019 will mark the return of normalization in monetary policy in the Euro region. These two scenarios of the Fed rate hike projection and higher rates in Europe should keep the euro as a currency strong pushing the dollar down

### **Outlook**

Silver prices are to receive support from weaker dollar and as the Fed rate cycle slows or comes to an end in the coming year. The concerns of huge outflows of money from bonds and currency market will make the investors shift towards commodities and equity creating an inflationary scenario supporting Silver prices while dollar staying weak. Also, the current Gold Silver ratio is likely to support silver prices in the coming year. We expect Comex Silver to remain moderately bullish in the coming year and expect prices to average \$16.2 per oz and move higher towards \$16.8-\$17.5 per oz in 2019.



Crude oil prices started the year on healthy note with rising global growth fueled with stimulus from US and prices moving up from \$60/bbl at the start of the year to almost \$76.9/bbl on 3<sup>rd</sup> October 2018 however, in the second half of the year we saw prices slipping to \$42/bbl on worries over slowdown in global growth creating a surplus scenario in oil.

Crude oil prices declined in the second half of 2018 as the global growth expectation remained fragile along with fiscal challenges having worrisome effects on the future demand for oil. The downgrade of global growth put the brake on rising crude oil prices on increasing trade tension, monetary tightening in US and geopolitical worries and after US planned to remove its sanctions on oil supply on some oil importing countries on temporary basis.

	2017	2018	1Q 19	2Q 19	3Q 19	4Q 19
<i>Global Demand(a)</i>	97.25	98.79	99.1	99.26	100.64	101.29
<i>Non-OPEC supply</i>	57.53	60.03	61.01	61.06	62.63	64.01
<i>Open NGL's</i>	6.24	6.36	6.42	6.43	6.46	6.45
<b>Total Non-OPEC supply(b)</b>	63.8	66.37	67.43	67.49	69.1	70.5
<i>Difference(a-b)c</i>	33.45	32.42	31.67	31.77	31.54	30.79
<i>OPEC crude oil production(d)</i>	32.62	32.52	31.8	31.8	31.6	31.6
<b>Balance(d-c)</b>	-0.83	0.1	0.13	0.03	0.06	0.81

## Demand & Supply:

Looking at the above global demand supply table of oil, the balance of demand supply is estimated to show a surplus of 0.1 mbpd in 2018 from the deficit of 0.8 mbpd in the previous year and as per our expectation, we believe the oil market will continue to remain in surplus of 0.26 mbpd in 2019.

Going forward, the global oil demand has increased from 97.25 mbpd in 2017 to 98.79 mbpd in 2018, a rise of 1.5%. The projected demand is set to increase by another 1.3% in 2019 as the lower oil prices demand revival is offset by the demand weakening due to lower economic growth. The demand for OPEC crude in 2018 is estimated at 32.4 mbpd which is 1.1 mbpd lower than the 2017 level and is forecasted to remain 31.4 mbpd, around 1.0 mbpd lower than the estimated 2018 level.

The non-Opec supply is expected to grow by 2.5 mbpd in 2018, mainly due to supply additions from US and Canada as well as higher production from Russia. The supply increase has also come from Kazakhstan, UK, Ghana all of which offset the declines in oil output in Mexico, Norway and Vietnam. During the next year, the non-opec supply growth is forecasted to slow in the first half of the year due to compulsory production curtailments in Alberta, Canada on pipeline bottleneck and Russia as the production cut agreement with OPEC member from January 2019. There are many supply challenges to be faced by the non-opec producers in 2019 like shale production with lower prices, bottlenecks in transportation of oil in Canada and North Dakota.

## OPEC Production

OPEC members along with non-Opec countries like Russia, met in Vienna on Dec 6th 2018 and agreed to reduce the oil output by 1.2 mbpd in total with Venezuela, Iran and Libya have been exempted from cutting its oil production. OPEC shared to cut the oil production by 0.8 mbpd while the other non-Opec countries agreed to contribute to cut by 0.4 mbpd. The cuts were in response to increasing facts that oil markets could become oversupplied in 2019. Before this cut, OPEC members had agreed to raise its oil production by close to 1.0 mbpd in June meeting on expectation of tightening in oil markets due to loss of Iranian production on upcoming US sanctions.

At present, Opec oil production averaged near 32.96 mbpd in November 2018 slightly down from the last month on lower Iran oil output. And going into the next year, the OPEC oil put is set to reduce in 2018 ahead of planned output cuts. The reduction in output will be reflected slowly in the months to come and will be seen in the drawdown of global inventories, helping oil prices bounce back in the Q2 2019.

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### **Three Big Oil Movers - United States, Saudi Arabia and Russia**

Together all three nations closely produce around 40% of the global oil supply. With United States, one of the world's largest producer, producing near record high due to shale revolution is expected to increase its oil output to 12.06 mbpd in 2019 while the other two nations - Saudi Arabia and Russia produces closely around 11 mbpd, work closely together and swing output one way or the other. United States also being one of the largest consumer of oil, lower oil prices always remains an advantage.

US imports have drastically fallen from 11 mbpd in 2008 to almost 7.2 mbpd this year. This lower import has been due to higher domestic oil production. The oil production in the country has increased to such an extent that it became the net exporter of oil during the week for the first time since 1991

**Iran may reduce its oil exports** – US waivers granted to some oil importing countries will expire in the month of May. There are high chances of US President Trump would not consider extending waivers in May as oil prices have fallen drastically from November. Iran's oil production declined from 3.8 mbpd in June 2018 to below 3.0 mbpd in November 2018. If the US denies on extending waivers, we might see a huge fall in Iran's oil production in 2019.

### **Inventory Scenario**

The total OECD Commercial stocks stands at 2,880 million barrels in 2018, which are 41 million barrels lower than the last year average however, higher by 4 million barrel than the five year average. US commercial crude oil inventory rose in November currently standing at 443.2 million barrels, which is 2% above the last year average and 5.5% above the five year average. The distillate stocks are standing at 125.6 million barrels, which are 10% below the five year average levels. On the contrary, gasoline inventory levels stands at 226.3 million barrels which are close to the last year and five year average levels.

### **Outlook**

To conclude, we believe that the current oil surplus scenario will take time to ease with no immediate demand to arrive in early 2019. The slowdown in the world-wide economic growth and tensions between US and China is also weighing on oil prices. During the first half of 2019, we expect WTI crude prices to move higher towards \$52-\$55/bbl on lower output from Canada and OPEC as it starts to reduce its oil supply from January 2019. We anticipate this reduction in oil output to reflect after few months and any breakthrough in the US-China trade war would bring a quick sentimental revival in oil prices. On the contrary, towards the end of the year, the growing US oil supply will keep the upside in crude oil prices limited.

We expect global demand supply of oil to remain slightly in surplus during the year 2019 as growing oil production in US will keep the supplies sufficient in the market offsetting any reduction in oil output from OPEC. Although, any unexpected reduction in OPEC output will reverse the trend and put a floor on oil prices in 2019 and may see the market approach balance by end 2019.

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