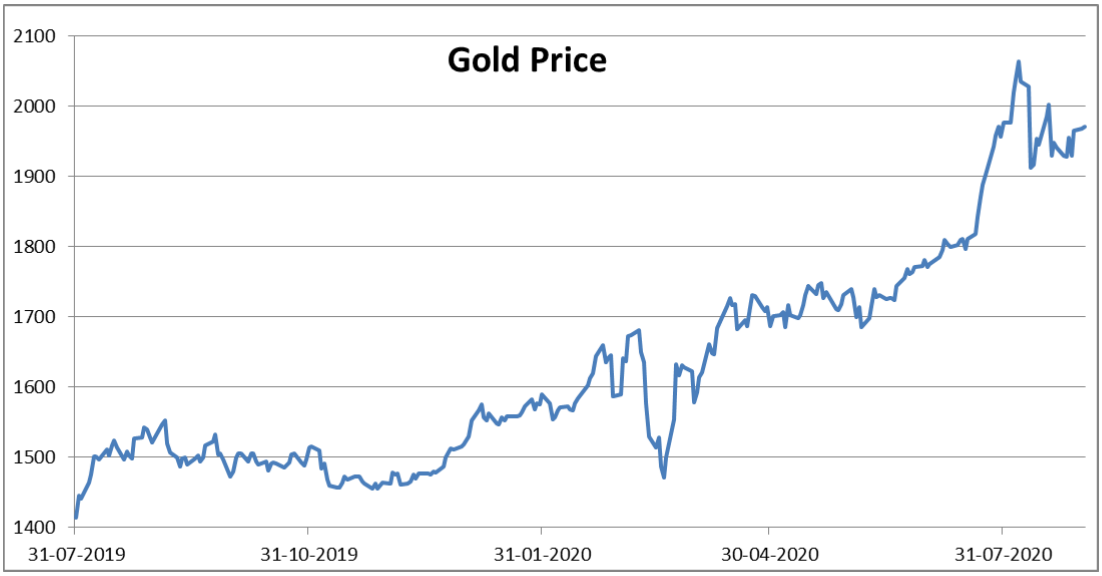
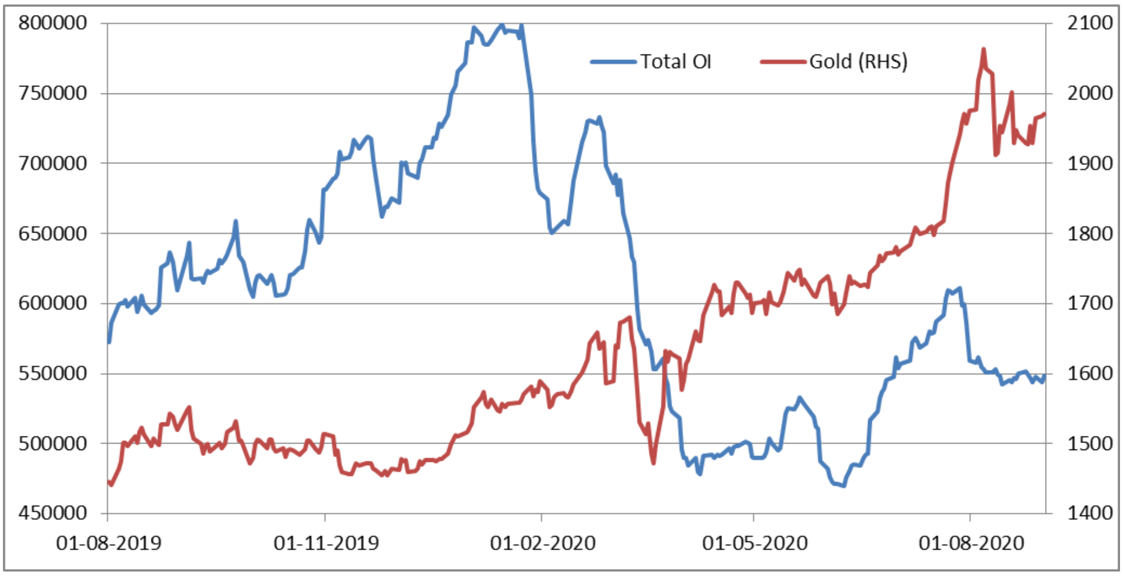
Ominous signs for Gold

Gold prices have rallied remarkably and have been the flag bearer of bull trend among commodities, so to say Gold has rallied 50% since May 2019 and has become the asset of choice.Albeit there are warning signs regarding this spectacular rally, some indicators do point towards aninternal weakness in the gold market. Gold is being sold at a discount inChina which is the world's biggest consumer of the metal; discounts now have widened to $75-$100 per ounce against the global benchmark, yet the demand remains lacklustre.Net imports via Hong Kong to China were 1.4 tonnes in July up from 0.87 tonnes in June;which are still more than 82% lower on a YoY basis. In India too discount of around $43 per ounce is being offered over official domestic price due to lower demand, though August-2020 imports have risen sharply to 60 mt but this may be due to re-stocking by jewellers after phased lifting of lockdown.



Prompt (Dec 2020-Feb 2021) month contangoon the Comexwhich was -$30 on 8th July has flattened and currently stands at -$7.90, while the contangobetween spot gold-active month future has flattened from -$11.70 to -$8.70.The total OI of all contracts is also decreasing while prices have risen, with passage of time we can expect the prices to decline and bridge the gap. Both of these situations viz: reducing contangoalong with reducing OI indicates that buying & speculative interest is fizzling out.Further comex gold total inventory also currently stands at 1155.32mt near the highestever level of 1161.33mt; inventory has increased from 309 mt in April 2020 to 1161.33mt as of 20th August, which is a whopping 275.83% gain.



With all the above indicators like flattening contango, gold being sold at a discount due to lower demand along with huge inventory indicate an impending correction for gold price. Given the circumstances we would advocate a bearish view on gold for potential downside targets of $1,800 &$1,750 in the coming days.