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SILVER - MCX

CMP : 61900

Silver at Multi week High, What Funda as Well Technical Indicates Now

Silver seen most volatile precious metal for the year 2022 till date as it hit above 7000/kg in 1st week of March and after that fall up to 52000 in 1st week of Sep due to strong run up in dollar index which scales fresh multi decade high. Now silver seen gain from recent bottom and hit fresh 1-month high in domestic Future market. Silver has both flavor as on one side it has precious metals status which will benefit during crisis time as safe haven buying, while on other side its increasing industrial use makes it more attractive when economy grown up. Currently both this in favor of Silver as increasing safe haven buying after US FED likely to limited aggressive on its rate hike spree and fall in treasury yield curve will resulted in hedge funds might turn again towards safe assets like bullion from riskier assets. Other side economy likely to be open up from last 2-years of Covid restrictions will likely to lead silver industrial as well electrification & solar penal green energy uses and benefit prices over a period of time.

7-Fundamenatals likely to support Silver prices over a period of time

1) interest rates (US FED) are likely to peak in Q1-2023 and Bullion will get direct benefit from this as rising interest rates dim non-yield Gold and Silver and any pause in interest rates increasing cycle, will turn focus towards other fundamentals like Geopolitical tension as well global recession and both this will positive for Silver.

2) Fall in Bullion during the last few months was mainly due to a rally in the Dollar index from around 90 in June this year to a multi-decade high in Sep above 114 and now any fall in the dollar index will be directly positive for Bullion. Also, if dollar index retreat, US treasury yield also remain under pressure and any fall in yield will divert hedge funds towards safe assets like Gold and Silver.

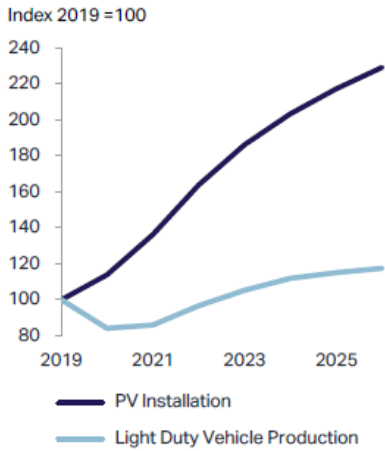
3) Strong Demand Scenario, as we know India silver imports have already crossed 8000 tones mark and according to Silver Institute, silver demand almost double in domestic market due to jewelers take advantage of lower prices to build up stocks which was not happen in last 2-year due to Covid situation. It is to be estimated that Demand for silver in India has exploded this year and may cross 10,000 mt. Physical demand for Bullion is seen strong especially from Asian countries after Covid reopening and the trend likely to remain continue at least for the next few quarters due to increasing per capita income which might resulted in higher investment demand for Gold & Silver. Global silver demand is also expected to rise by 16% this year and reach a fresh high of over 37,000 mt. and surge in silver consumption is led by record industrial, physical and jewelry demand this year.

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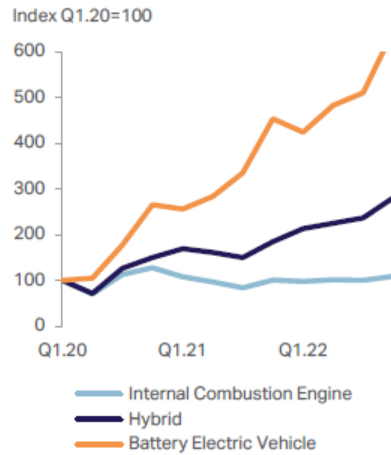
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Longer-Term Industrial Demand Indicators



Source: GTM, Metals Focus, LMC Automotive

Quarterly Vehicle Production by Powertrain



Source: Metals Focus, LMC Automotive

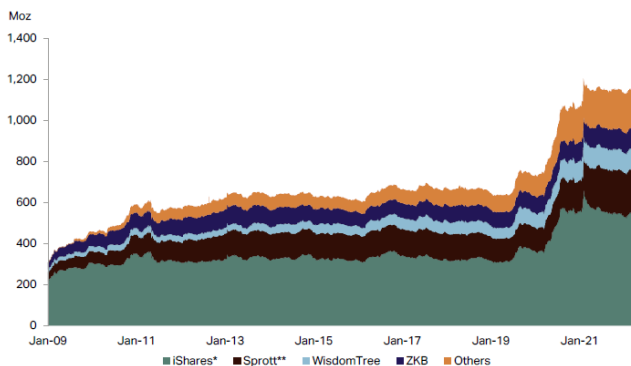
4) Lower Stocks at warehouses, the amount of silver stored in vaults in London and New York monitored by the COMEX has fallen by around 25% this year and trend likely to remain continue at least for coming quarters. If so, this will cushion prices at every dip.

5) Recession fear, as it is to be expected that aggressive rate hike spree by most of the global central banks might turn into recession over a period of time and any financial crisis will directly benefit safe haven bullion and especially silver which is relatively under price as compare to Gold in a longer period.

6) Geopolitical tension, as Russia's invasion of Ukraine will convert into western countries vs. Russia as of now and a list of sanctions by western countries over Russia will seen to remain for longer time than expected and any rise in conflicts will historically be seen as positive for safe-haven assets like Gold and Silver.

7) New investment avenue, India is currently the world's third largest silver physical investment market after the US and Germany. silver ETF which is newly entered investment option in India, also seen its holding increases as major India silver ETF has given 15% return from its low made in Sep this year and on monthly basis, on an average silver ETF has given 5% return which definitely attract more players to invest and hold, will increase demand in domestic market.

Silver ETP Holdings



*iShares Silver Trust; **Combined holdings of Sprott Gold & Silver and Sprott Silver
Source: Bloomberg, respective issuers

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It is to be clearly visible from above chart that Silver ETP holdings including world largest Silver ETF

iShares holding seen increasing over a period of time and trend likely to remain continue for next couple of years.

Fundamentals against Silver & may pressure prices at higher level

As Silver is an industrial Commodity, any sharp recession will affect demand for silver and also hurt safe-haven buying at a higher level. Secondly, it is premature to predict Inflation as well Dollar index has already peaked and any reverse scenario will affect bullion appeal at every rally. Also, silver is more volatile than Gold, investors will turn cautious if any dip seen in prices in short term and may distract silver from investment portfolio. As mine production recovered from a COVID-disrupted 2020 and industrial recycling was also higher, global supply rose by 5% y/y for 2021 and forecasted to increase by 3% in 2022, this might put cap on higher prices.

So it is to be concluded that, Industrial demand mainly increases by newly emerging uses like EV, Solar panel demand, 5G technology uses and Green Tech energy and this sectors likely to outperform for couple of years or for decade and demand for silver will continue to increase over a period of time. It is to be estimated that the global silver market to be in a multi-decade high deficit in 2022 and trend might be continue for couple of year, although next year deficit not expected as its in 2022.

Technically Outlook



Sources – Ticker Plant and Bonanza Research

Technically, silver seen in a bright spot as it just break above 50% retracement level; of fall from above 73000 to below 52000 with price seen higher top higher bottom pattern in daily chart with swing break out seen few days ago. Also, in daily chart price trading above 50-100 & 200 days Simple moving averages and also take support from its 200-DMA in recent fall. RSI also seen upward channel with higher top higher bottom pattern and upward direction indicates buying movement in the counter.

So, based on above setup, immediate resistance seen at 63000-63100 belt and any Sustain close above same will likely to test 61.8% retracement level of 64900 and up to previous supply zone between 70800-72000 levels in short to medium term. While on lower side immediate Support seen at 60000 followed by 58400-57000. Overall unless price Sustain below 55000 in longer period, buy on dips strategy advisable on the basis of above chart pattern.

Immediate Support seen at 57000 & 54900 and Resistance seen at 63100 followed by 66000.

Technical Research Analyst

Mahesh Prakot

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