
Gold upside is capped by interest rate hike anticipation

GOLD UPSIDE IS CAPPED BY INTEREST RATE HIKE ANTICIPATION

- Gold is now trading near \$1858, sharply lower from yesterday's high of \$1881.60 however prices are still near multi month high. Weakness in US dollar index is supporting positive move in gold prices. US dollar index is now trading near \$95.80 which is sharply lower from recent high of 97.44 registered last month. Positive move in US 10 year bond yield is keeping gold prices under pressure. US 10 year Bond yield have rallied to 2.056 this week which is sharply higher from last month low of 1.512.
- After Russia announced that it was returning some of its troops from the Ukraine border to their bases, the stock market rallied, sparking long liquidation of precious metals. Higher global bond yields weighed on gold prices as well. However, gold's downside was protected by a weaker dollar and signs of rising US inflationary pressures, which boosted demand for gold as an inflation hedge after U.S. producer prices rose more than expected in January.
- Rise in bond yields and hopes of Fed's aggressive rate hikes are likely to keep gold prices under pressure in near term. Gold prices are likely to get fresh direction from today's scheduled release of minutes from Fed's January 25-26 policy meeting.
- On economic data front, the U.S. Feb Empire manufacturing survey general business conditions index rose +3.8 to 3.1, weaker than expectations of 12.0. U.S. Jan final-demand PPI rose +1.0% m/m and +9.7% y/y, stronger than expectations of +0.5% m/m and +9.1% y/y. Japan's Q4 GDP grew +5.4% (q/q annualized), weaker than expectations of +6.0%. The German Feb ZEW survey expectations of economic growth index rose +2.6 to a 7-month high of 54.3.
- According to the Commitments of Traders (COT) report for the week ending February 8, net long gold futures increased by 14564 contracts to 186706 contracts. Shorts dropped by 10999 contracts while speculative longs gained by 3565 contracts. The US CFTC's COT reports, which are issued weekly, highlight hedge funds' futures positions and developments in commodities, currencies, and financials.

Outlook

- Gold prices are likely to face stiff resistance around yesterday's high of \$1881, upside is capped due to interest rate hike anticipation in US meanwhile immediate support level could be seen around \$1844-\$1830

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Prepared by:

Mr. Kamlesh Jogi | Market Research Analyst

email: kamlesh.jogi@abans.co.in

Phone: +91 22 68354176 (Direct)

Abans Broking Services (P) Limited

36, 37, 38A, 3rd Floor, 227 Nariman Bhavan, Backbay Reclamation, Nariman Point, Mumbai-400 021

Phone +91 22 61790000 | Fax +91 22 61790000

Email: info@abans.co.in | Website: www.abans.co.in

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