
Gold gains are projected to be limited as bond yields increase

GOLD GAINS ARE PROJECTED TO BE LIMITED AS BOND YIELDS INCREASE.

- Gold is stabilizing in a narrow range near \$1814 but likely to remain under pressure due to the strength of the US bond yield. In 2022, yields have been rising in anticipation of interest rate hikes by the US Federal Reserve as early as March.
- Gold market is likely to get fresh direction from a speech from European Central Bank (ECB) President Christine Lagarde and colleagues, as well as the minutes from the central bank's December policy meeting due on Thursday.
- Also, statements from Fed members this week, ahead of the central bank's policy meeting on January 25-26, are expected to provide direction on the Fed's next step. Meanwhile, the market has almost entirely priced in a March rate hike and rates of 1.0 percent by the end of the year.
- Meanwhile, a surge in global inflation is helping to strengthen gold prices. In a meeting today, the Bank of Japan (BOJ) raised its inflation predictions. BOJ also raised its growth prediction for the coming fiscal year and gave a more bullish assessment of the economy than three months ago, ignoring the recent surge in Omicron coronavirus variant cases for the time being. BOJ has set a short-term interest rate target of -0.1 percent and pledged to keep long-term rates at 0%.
- With inflation expected to continue below the Bank of Japan's objective of 2% in the next years, the BOJ has emphasised the importance of maintaining its ultra-loose monetary policy even as its worldwide rivals move away from crisis-mode policies. BOJ slightly raised its inflation forecast for fiscal 2023 to 1.1% from 1.0%.
- The net long of gold futures fell 11618 contracts to 199737, according to the CFTC Commitments of Traders data for the week ending January 11. Long speculative positions lost 6481 contracts, while short speculative positions gained 5137.
- Gold ETF holdings have seen a slight increase, with SPDR Gold Shares holdings up to 976.22 tonnes on January 14th, up from 975.67 tonnes on December 31st.

Outlook

- Due to the strength of the US bond yield, gold prices are likely to stay under pressure. While trading below a critical resistance level of \$1826-\$1836, gold prices may trade lower. Immediate support could be seen in the \$1794-\$1771 range.

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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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