

Commodity Idea

July 27, 2020

Index

Recommendation

Rationale

Risk to our calls

Conclusion

Visit us at www.sharekhan.com

Sharekhan

by BNP PARIBAS

Silver outlook upgraded; prices set to rise to \$30

Recommendation:

Date: July 22, 2020

Buy Silver around Comex spot price \$22

Price target: Comex silver spot price \$ 30

Stop loss: Comex Silver spot price \$16

Timeframe: One year

Our Call:

- On July 22, 2020, we generated a buy call on Comex Silver for a target of \$30 keeping the stop loss at \$16 (Comex silver spot price). Because of huge volatility, we advised clients to buy a total of six lots of silver mini contracts on the MCX in a staggered manner – as and when advised by Sharekhan Commodity Research. In the first tranche of the call, given on July 22, we advised clients to buy two lots of silver mini August at Rs. 58,500 and to sell eight lots of USDINR at a spot price of Rs 74.80, so as to hedge the currency risk.
- On July 23, 2020, we asked further to add two more lots of MCX silver mini August at Rs. 61,650 (COMEX silver price \$22.75 spot) and to sell eight lots of USDINR pair at a spot price of Rs 74.90 to hedge the currency risk.
- The third tranche will be advised at later stage.

As this call is based on our previous [report released on May 18, 2020](#), we have tabulated our silver calls below so as to avoid confusions on the calls:

S No	Date of entry	Call	Commodity 1	Commodity 2	Entry level Commodity 1	Entry Level Commodity 2	Date of closing	Closing status	Exit level commodity 1	Exit level commodity 2	Profit/ loss	Net profit/ loss
1	15-May	Fundamental report based call - silver - Buy three lots of silver mini at Rs. 45,564. The MCX June contract. Equivalent Comex spot price - \$16.19. Stop-loss on US Dollar - \$13, Target - \$21. Add three lots silver mini when advised. Hedge currency risk by selling eight lots USDINR at spot price of Rs. 75.59 . Rollover required. Timeframe - 6-9 months.	Silver mini June	USDINR Spot	45,564	75.59	30-Jun	Rollover to August on expiry	48,363	74.73	48,865	48,092
	30-Jun	Rolled over to August contract	Silver mini Aug		49,129		21-Jul	Book Profit	55,311		92,730	92,288
												1,40,380
2	22-Jul	Fundamental report based call - Buy silver at \$21.40 Stop-loss - \$16 Target - \$30. Timeframe - One year. Buy in staggered manner as and when suggested. Buy two lots of silver mini now at Rs. 58,500. Hedge Currency risk by selling eight lots of USDINR at spot price Rs 74.80. Add remaining four lots of silver mini when advised. Rollover required. Report follows .	Silver Mini August	USDINR Spot	58,500	74.8						
	23-Jul	Two lots of silver mini added	Silver Mini August		61,650							
	24-Jul	Sell eight lots of USDINR spot		USDINR Spot		74.9						
		Total			60,075	74.85						

Rationale:

We have upgraded our silver price view, based on the recent series of developments that took place during the present stage of ongoing pandemic. These developments are likely to significantly impact silver prices. The rest of our rationale remains unchanged as per the report released on May 18, 2020. It is to be noted that we have already booked out and closed our call mentioned in the May 18 report, in which we advised buying three lots of silver mini at the COMEX price of \$16.19. The present call is a fresh one. The status of the calls can be seen in the table given above.

We would like to draw attention to positive factors that are expected to boost the price of silver further. The factors are as mentioned below:

Huge stimulus giving rise to inflationary expectations, leading to currency debasement:

- On July 21, European leaders clinched a deal on an unprecedented \$2.1 trillion Budget and Coronavirus relief fund. The Coronavirus relief fund is of Euro 750 billion of which Euro 390 billion will be in the form of a grant.
- The next stimulus package in the US could be worth well over \$1 trillion as the nation grapples with the deteriorating economy due to the raging Coronavirus contagion.
- The US Federal Reserve is expected to keep on expanding its balance sheet – It is expected that the sheet size could reach 10 trillion Dollars by the end of the year. Balance sheet expansion, or the money printing has already amounted to \$3 trillion in the last four months.
- The US Federal Reserve to keep the interest rates low for long time. Although negative interest rates don't seem to be on the cards presently, yield curve control is not ruled out.
- The US 10-year real yield is already in negative territory.
- Almost \$14 trillion of global debt is fetching negative yields.

Demand from green technology manufacturers:

The global economy is aiming for a 'green recovery', as a significant part of stimulus measures are assigned to environment friendly technologies. Silver is used in solar panels and electronics. The European Union's Euro 750 billion recovery fund has earmarked 30% of the fund for environmental policies and initiatives.

Supply disruptions:

The COVID-19 pandemic has impacted mining activities across the globe. Initially, mining activities were impacted by government imposed lockdowns. However, as mining resumed many workers tested positive for COVID-19 which led to suspension of activities.

Pan American Silver Corp suspended operations at Huaron and Morococha in Peru as many workers are testing positive for COVID-19 recently. Many junior and top mining companies with operations in Latin America have released their quarterly results which show a significant drop in silver output. Mining companies such as Sierra Metals Inc clocked a whopping 32% fall in silver output. According to S&P Global Marketing Intelligence, nearly 275 mines across the globe have been identified, where mining activities have been disrupted as on June 25, 2020, of which about 21 were silver mines.

Silver mining companies such as First Majestic, Hochschild, Hecla Mining and Endeavour Silver have all withdrawn their production guidance for 2020 in the wake of the outbreak. According to the Silver Institute, global mine production could fall by 7% in 2020 owing to the temporary shutdown of operations due to COVID-19 outbreak.

Weakening US Dollar:

In next few years, the US debt-GDP ratio is likely to surpass the highest level seen in the World War II. The US Budget Deficit may quadruple this year to \$4 trillion. The US 10-year TIPS (Treasury Inflation-Protected Securities) yield fell to a record low of -0.907% on July 23, as the investors are pricing higher inflation due to the stimulus. The US Dollar Index is already looking very weak as the traders are getting concerned about the US finances.

Risk to our call:

Risk to our bullish call on silver can arise from the following factors:

1. The US Federal Reserve raising rates faster than expected, in case inflationary expectations build up rapidly
2. The Coronavirus contagion badly affecting the global economy further
3. Coronavirus vaccines becoming available sooner than expected

Conclusion:

Considering currency debasements happening due to unprecedented stimulus, weakness in the US Dollar, awareness on green technology, rising inflationary expectations and supply issues due to the Coronavirus contagion, we remain bullish on silver. Of course, there are certain risks to our call. We would be monitoring these risks to take appropriate actions.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. and is intended only for the person or entity to which it is addressed. This Document may contain privileged material and is not for any type of circulation and any review, retransmission, re-distribution or any other use is prohibited. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. If you have received this in error, please contact the sender and delete the material immediately from your computer/mailbox. We may from time to time have positions in, or options on, and buy and sell securities referred to herein. We may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein.. Though disseminated to all customers who are due to receive this document, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers merely by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can change materially as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities/commodities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities mentioned herein.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities/commodities, from time to time or may be materially interested in any of the securities/commodities or related securities/commodities referred to in this report

Investment in securities market are subject to market risks, read all the related documents carefully before investing. Please refer the Risk Disclosure Document issued by SEBI and go through the Rights and Obligations and Do's and Dont's issued by Stock Exchanges and Depositories before trading on the Stock Exchanges. Please note that Commodities Derivatives are highly leveraged instruments and their prices may be dramatically influenced by factors such as prices of underlying, government policies, international market prices, international political situations and other macro-economic factors. Before investing in the asset class consider your investment objectives, level of experience and risk appetite carefully.

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, LodhaiThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai - 400042, Maharashtra.

SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183; MCX Member id – 56125.

For any complaints email at igc@sharekhan.com. Compliance Officer: Mr. Joby John Meledan; email id: compliance@sharekhan.com; Tel: 022-61150000.