

**Introduction**

Gold has shown a powerful rally since October 2008's lows of \$681 per ounce, and certainly one could argue that a correction would vicious sooner or later. However, the fundamentals for Gold are only getting stronger as US inflation is climbing above 8.5% real rate and interest rates continuing to drop. This is creating a "negative" real interest rate environment amidst a continuing weaker US dollar. Besides Debt Turmoil of US and Defaulting countries are certain to surge up after Greece, Portugal.....now Italy, Spain ...and the list goes on. Hence it is hard fundamentally to argue against Gold at this time, creating difficulty in forecasting the intermediate highs and lows.

With that said, assuming QE3 or some form takes place soon then our projections of Gold to touch the new high of \$1800 is quite likely to be hit this year itself before we can look for any genuine correction in the precious metals.

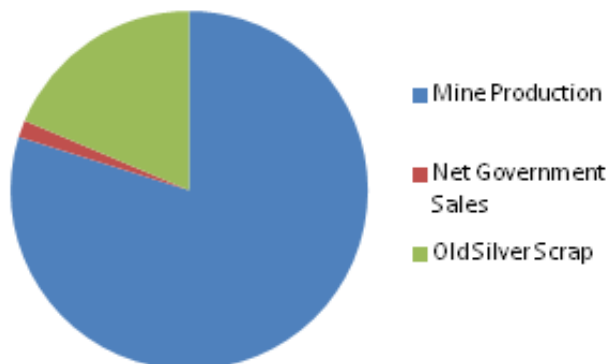
**Demand and Supply**

Unlike Gold, silver has numerous traditional as well as industrial uses. Traditional usage of silver has been in coinage, jewelry and silverware where as industrial uses comprise of batteries, brazing and soldering, catalyst, electronics, mirrors and coating, solar energy and in water purification. Apart from all above, investment demand of silver has witnessed a positive trend during last few years. In 2010, industrial demand surged 21% to 487.4 million ounces. Although Photographic usage declined 8.3 percent to 72.7 million ounces, coin and medal purchases gained 28 percent to an all-time high of 101.3 million ounces, Silver held in exchange-traded products also climbed 21 percent this year. Jewelry purchases increased 5.1 percent to a five-year high of 167 million ounces, resulting into total fabrication demand to a 10-year high of 878.8 million ounces as per latest report from GFMS.

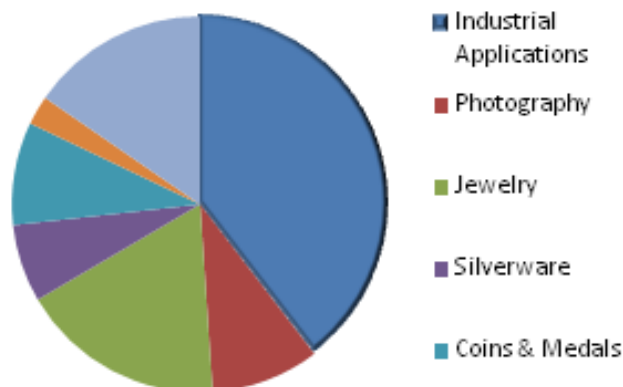
Silver having highest electrical conductivity and thermal conductivity of any metal, its main industrial end-use in electrical and electronics applications is widespread. Silver's new applications are diverse and are being used in health, electronics and renewable energy industries, but many of these new applications are using a tiny amount of Silver per unit. Until these applications have widespread use their impact on Silver demand is likely to take time to be felt.

Increasingly, the potentially large application of silver is in Silver-Zinc batteries. Silver-Zinc rechargeable batteries are being considered for the next generation high performance batteries for laptops and mobile electronics as they have the advantage of offering 40% more power and 95% of the primary elements within the battery can be recycled and re-used to make batteries again. This segment alone can drive the demand of silver to next level during coming years.

**Supply of Silver**



**Demand of Silver**



As for as industrial demand by countries is concerned, China has been importing silver in record quantities in recent years and trends indicate that it will continue to do so this year as well. In 2010, China imported a record 3,500 tonnes of silver and the strong demand shows no sign of slowing down. Industry, jewelry and investment are the three sectors accounting for the highest demand with industry constituting 70% of the demand. India has also shown an increasing demand for silver. In 2010, India consumed about 2,800 tonnes of silver and consumption is expected to grow further this year. It is the rural sector that accounts

for the highest investment in silver in India. The two nations are expected to show around 30% increase in the demand for silver this year 2011-12

Though, silver is more abundantly available in Earth's crust than gold but the amount of above-ground gold far exceeds the amount of silver. According to estimates, silver is at least 17.5 times more abundant than gold but it is also true that around 95-98 % of gold ever produced still remains above ground where as silver is continuously being consumed as an industrial metal and its supplies do not catch up with demand. There are estimates that from 1990 to 2000 alone, over two billion ounces of silver disappeared from the market to consumption. According to the Silver Institute, the demand for silver from industry will increase 36 percent by 2015.

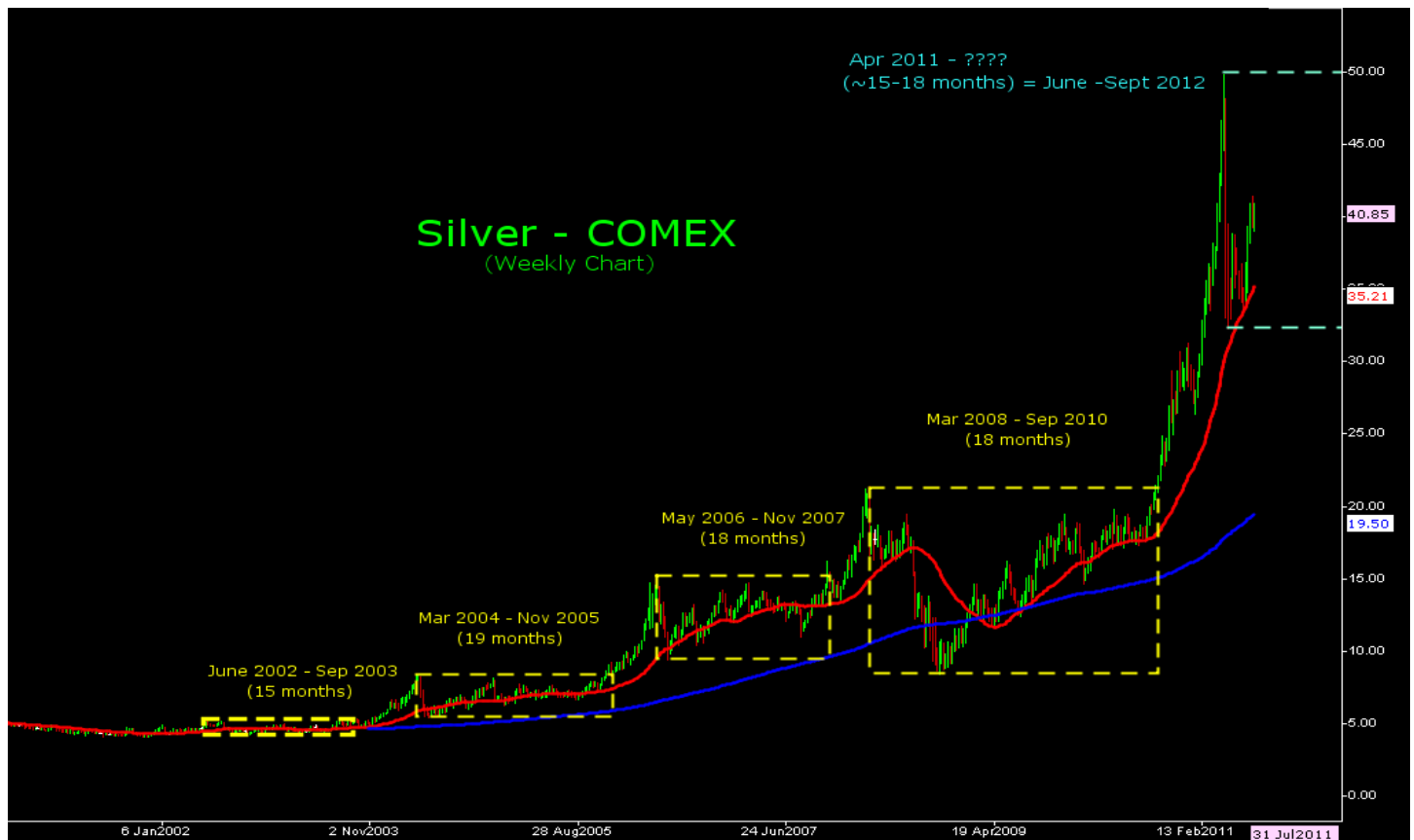
On the supply front, around 70% of silver production comes as a byproduct to other types of mining, such as copper, lead and zinc. Silver's surplus (difference between supply and fabrication demand) is narrowed by 12 percent last year to 173.4 million ounces. As per Gold Field Mineral Services (GFMS), mines output rose 2.5 percent to a record 735.9 million ounces, as Mexico surpassed Peru as the biggest producer. As prices gained continuously, scrap supplies also climbed 14 percent to a record 215 million ounces, the first increase in four years.

**Technical Outlook**



Silver is certainly moving cautiously upside behind gold, trading well below the key technical levels of \$ 41.44 per Troy ounce besides poor near term fundamentals looming on this white industrial metal, puts the trader on caution while trading at current levels of 41.0 per Troy ounce. Silver in the recent past is trading bearishly, after breaching the support near \$41.20, drifted towards bottom of \$ 33.2900 and again reached the top of \$41.44 per Troy ounce. Stability below \$40.40 per Troy ounce infers the short term downside trend again, while a breach of 23.6% Fibonacci correction could push silver to retest 38.2% Fibonacci correction at \$38.25 Troy ounce.

The sudden upside surge meant the long term downside support level near \$26 per Troy ounce will be distant target but the recent lows near \$33.2900 Troy ounce which is also 100DMA, will remain as a strong support.



For anyone thinking of getting some exposure to silver now, buying on any pullback remains the prudent thing to do though it is advisable to wait for a decent correction before go for buying. The current supports for silver are at US\$38.25 (20 DMA), US\$37.20 (50 DMA) and US\$38.10 (100 DMA).

Historically Silver is seen moving in a sideways continuation pattern for almost 18 months after every breakout of previous top that happened four times in last decade. If we assume that the current top has already been formed (in April 2011), considering recent high of 49.8310, it might take another 15-18 months to breach that high. If we go with the previous time scale pattern of breaching previous tops, the current high (\$50) can be expected to be breached in next 15-18 months, somewhere July-September 2012. Once breaching that high, we could expect a sharp rally, not stopping before \$70 and further towards \$80 and finally to \$96 in years to come.

**Pattern and Oscillator analysis**

**Long Term Trend :**

**Trend:** Silver continues to trade above its positive long term moving average line.

**Analysis:** The long term momentum indicator continues in its positive zone above its positive trigger line though current move does not have the strength behind it that previous bull moves had have. This should be considered as a warning of possible trouble ahead.

**Volume:** Here too the volume indicator can be considered as positive being above its positive sloping trigger line. However, the recent volume action has been decidedly weaker than previous rallies.

Still, the long term trend at the close of Julys month remains **BULLISH**.

**Short Term Trend :**

**Trend:** Silver remains above its Short term moving average line to the up side.

**Analysis:** The Short term momentum indicator remains in its positive zone but by weekend (29/07/2011) close has dropped below its trigger line. The trigger although in the process of turning down has not quite made it and remains very slightly with a positive side.

**Volume:** The volume indicator is showing weakness but remains above its intermediate term positive trigger line.

For now the Short term trend remains **BULLISH**. This is confirmed by the short term moving average line continuing to move above the trend line.

**Support and Resistance levels**

	1 <sup>st</sup> Support	2 <sup>nd</sup> Support	3 <sup>rd</sup> Support	1 <sup>st</sup> Resistance	2 <sup>nd</sup> Resistance	3 <sup>rd</sup> Resistance
Silver -Comex (\$ / oz)	35.5	32.2	26.3	50.4	80.5	96
Silver - MCX (₹ /kg)	53300	49300	41200	74000	113,700	133,500

**Investment strategies**

**Short term Investment Call:**

Buy above \$43(Closing basis) while keeping stop loss below \$38 for an upside target of \$50.

(Time frame: 6 months)

**Long term Investment Call:**

Buy 25% @ \$33, another 25% @ \$27 and remaining 50% on a weekly close above \$43 per Troy ounce while keeping stop loss below 23 for an upside target of 80 and the 95 per troy ounce.

( In case price doesn't fall towards \$33 and 27, one can accumulate 50% above \$43 and remaining 50% above \$50 for an upside target of \$80 and the \$95 per troy ounce with Stop below \$32.

(Time frame: 3-5 yerars)

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