SARTHI
Bridging the Gap

INFO BYTE

Gold Catching Cold

Gold Price Vortex – "Gold has transformed in to a sell-on-rise from buy-on-dips market"

Gold has officially entered a bear market, declining more than 20% from the September 2011 peak of US$1,924/oz. The price of gold logged its biggest one-day decline in more than 30 years Monday, tumbling $140.30, or 9%, to $1,361. The sell – off accelerated last week and sharpest fall came on last Friday when gold declined by 4.1%; silver fell by 4.9%.

What triggered gold's steep fall?

1. **Cyprus gold sell off fear:** There's been some speculation that **the central bank of Cyprus could sell its 13.9 tonne valued at $697mn representing 62% of its total reserves in order to finance parts of its bailout program.** The European Commission assessment earmarked EUR400mn of gold for disposal ($520mn), the equivalent of 10.4 tonnes. This would leave Cyprus' gold holdings at 3.2 tonnes, with gold's share of total reserves falling to 26%, still above the international average.

   The ECB president said on Friday it was the decision of the central whether Cyprus uses its gold reserves towards the bail-out and proceeds should cover any losses the central bank may suffer from providing Emergency Liquidity Assistance. Increased supply, in the absence of increased demand, would send prices lower.

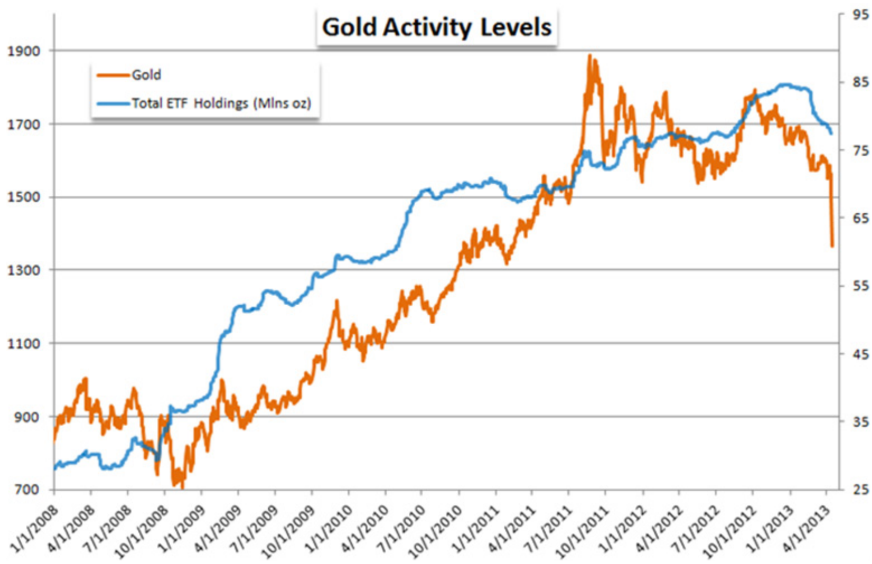
   The other major worry was if other troubled European nations would also resort to such selling, this could lead to a crash in the market. Italy (2452 tonnes), Spain (281.6 tonnes), Portugal (382 tonnes), Ireland (6 tonnes), and Greece (112 tonnes) hold substantial reserves. This prompted investors and speculators to offload their positions in the yellow metal.

2. **US economy recovery & QE3 fizzles:** The US economy has started showing signs of revival and is growing faster than expected in terms of GDP data, unemployment data, PMI, infrastructure etc, which is strengthening the US dollar that has an inverse relationship with gold prices. "Expectations around the globe that the US Fed may fizzle down the quantum of QE3 soon have also had its impact on gold prices. Since the global financial crisis, US Fed's quantitative easing programmes have ensured easy liquidity in the global economy, driving commodity prices higher and on the other side this will mean less reliance on gold as a safe bet for investors that were worried previously about inflation and stability of US dollar. This again trigger a sell off

3. **China poor data dampened the sentiment:** China's recovery unexpectedly stumbled in the first three months of 2013, as it reported its annual growth rate eased to 7.7% from 7.9% in the final quarter of last year. Economists had forecast 8 percent growth. Industrial output in China in March also undershot expectations and added to investor sensitivity. Slower Chinese growth means slower world growth, which means less inflationary pressure. (Gold is typically seen, albeit for dubious reasons, as a hedge against inflation.)

4. **Outflows from ETF's:** Continued outflows from the ETFs bear the greatest risk for gold. On April 4 the Bank of Japan announced the most dramatic easing steps that any central bank has ever taken. **The Japanese central bank's promise to double the monetary base. The radical Japanese Government Bond (JGB) action also created unprecedented volatility in that market. Hybrid Japanese investors who had loaded up with derivative instruments that tied in gold, JGBs and the yen saw their "Value at Risk" rise hugely.**

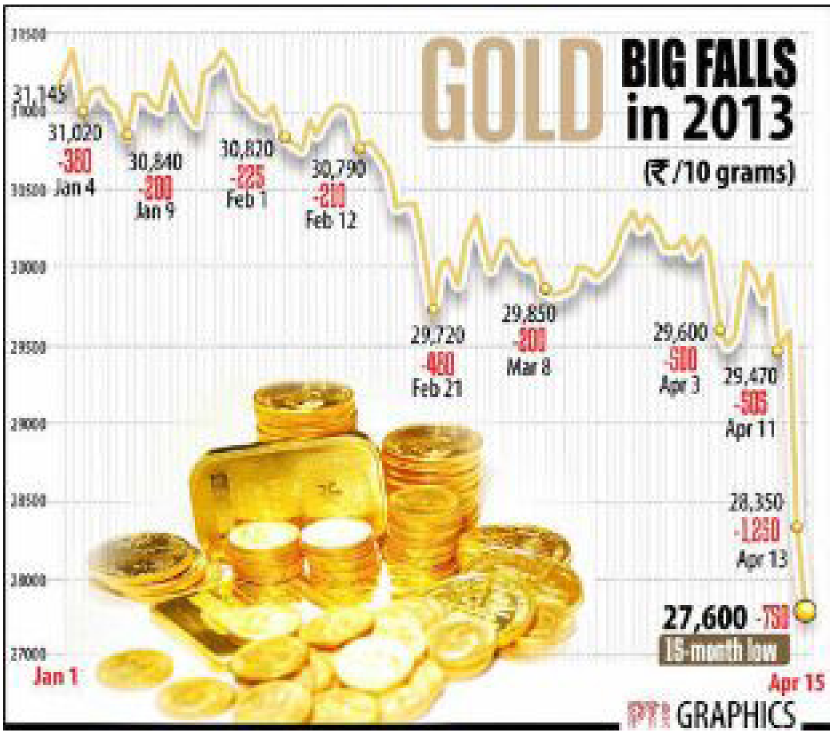
   Japanese investors were spotted selling gold/JPY on Friday in early London and the cross has fallen 17% as of Monday's close. The Japanese selling sent the gold price below key support levels around US$1,520, forcing Gold ETF longs into stop-loss selling mode. Investment banks said most of the selling on Friday was institutional, but the 9% fall on Monday was largely due to retail investors getting squeezed out.



Total holdings are at their lowest since July last year. 283 tonnes of gold holdings are cash negative below $1500/oz (assuming only those shares created above $1500/oz have been redeemed above $1500/oz, thus, this estimate is likely to be greater). Net ETP inflows established within the $1400-1500/oz price range are much smaller at 36 tonnes. Thus prices falling below $1500/oz could open up the floodgates for further ETF selling.

5. **Wall Street & brokerages recommendations.** Goldman Sachs put out a recommendation to short the precious metal in a recent note. French megabank Societe General also suggests betting the price of gold will decline, calling it one of its best trade ideas for 2013. Goldman's sell call did get some attention, which could have influenced sentiment.

Brokerage Forecast	Gold	Comments
Goldman Sachs	1270-1365	Gold cycle has taken a 'U' turn within no time because of mass selling of exchange-traded funds and long awaited correction. The brokerage expects long-position unwinding to continue, leading to further decline in gold prices from current levels
Commtrendz	1300	After 12 years of sustained bullish sentiment, bearish move was imminent. This trend is expected to continue in the near to medium term
Kotak Commodity	1300	Technicals suggest the bearishness in bullion prices would continue in near term. There are no positive factors currently that can support bullion prices
Motilal Oswal	1280	Global markets are currently in consolidation phase, which is pulling down bullion prices
Angel Broking	1340	Chances are that Cyprus will sell 14 tonnes of gold to bail out its economy, other Euro zone debt-ridden countries could follow



We warned in December last year and in March this year that gold was likely to fall further. Now that gold is falling, what should you do? Well, the technical picture suggests that gold will move to US$1,300-1,400/oz. At these levels, gold would have fallen 27-32% from its peak. It is difficult to gauge how low gold will fall in this cycle, but the falls over the past few days have tarnished the metal's reputation as a "safe-haven" hedge against inflation and as store of value.

S A R T H I
Bridging the Gap

CONTACT US

Please write to us with your feedback,
suggestion or query at **smelisting@sarthiwm.in**
www. sarthiwm.in

Sarthi Advisors Private Limited

Sarthi Capital Advisors Private Limited

SEBI Registered Category I Merchant Banker
SEBI Registration No : INM000012011

Mumbai
159/11, Amar Brass Compound,
Vidya Nagari Marg,
Kalina, Santacruz (E),
Mumbai – 400098
Landline: 022-26528671-72
Fax: 022-26528673

New Delhi
Anthem House,
E-360, 1st Floor,
Nirman Vihar, Delhi - 110092
Landline: 011-22449817, 011-22449815
Fax: 011-22439816