COMMODITY PRICE RISK MANAGEMENT- GOLD

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Commodity price Risk Management



Commodity Price Risk

It is the underlying price risk of the commodity. There are many risk management tools available to hedge the price risk.

Two most common tools are the use of Fundamentals analysis and Technical analysis.

VaR uses market inputs such as volatility to give an un biased probability analysis of price exposure.



Sources of Risk:

- Market / Price Risk
- ✓ Business / Financial Risk
- ✓ Technological Risk
- ✓ Social / Legal Risk
- **✓ Counter party Risk**



Managing Risks:

- Spot / Forwards
- 2. Futures& Options Contracts

Futures

✓ Futures for Price discovery and price establishment

Options

- ✓ Options give buyers right to exercise option and take possession of a futures contract at Strike Price
- Of 2 types: Call Option and Put Option



Popular Exchanges

- ✓ Energy NYMEX, ICE, TOCOM
- ✓ Base & Precious Metals COMEX,E-CBOT,DGCX,MCX & LME
- ✓ Other exchanges too deal in above items but the above are quite liquid



Introduction to Bullion



Bullion- Gold & Silver

✓ Gold:

- ✓ South Africa & North America major producers
- ✓ Follows the Euro, directly and dollar inversely
- ✓ India leads as gold-consumer
- High oil prices affect gold

✓ Silver:

- ✓ Silver is seen as alternative to gold
- Small size of market prone to volatility
- New area of usage in electronics and welding



Bullion- Gold & Silver

✓ Gold:

✓ Everyone is more bullish — even the bears. The lowest average predicted in gold — \$950

✓ Silver:

- ✓ Silver's bull market has, in our view, been more speculatively based than gold's, although it can be argued that a key driving force, the ETF, has become a fundamental in its own right.
- At such high Gold prices, Silver becomes an credible price alternative



Gold – Conventional & New Factors



Gold – Conventional Factors

- ✓ India GDP and consumers' expenditure, monsoon watch – Agricultural income
- Festival/Wedding season demand
- ✓ US dollar strength and inflation
- ✓ Supply side issues- Decreasing Mine production
- ✓ Potential threat of strikes in mines as prices skyrocket
- ✓ Geo political tensions



Gold – New Factors

- Investor interest in viewing gold as an alternative asset class has quadrupled in the past two years
- Central banks, who have traditionally looking to sell gold reserves adding liquidity to the markets, now adding to it as an alternative to the dollar.
- ✓ Inflationary expectations are on the rise as economies have pumped more money to stimulate growth.



Fundamental & Technical outlook

Different methods of analyzing markets for managing price risk effectively:

Fundamental Analysis
Technical Analysis
Market Psychology



Fundamental & Technical outlook

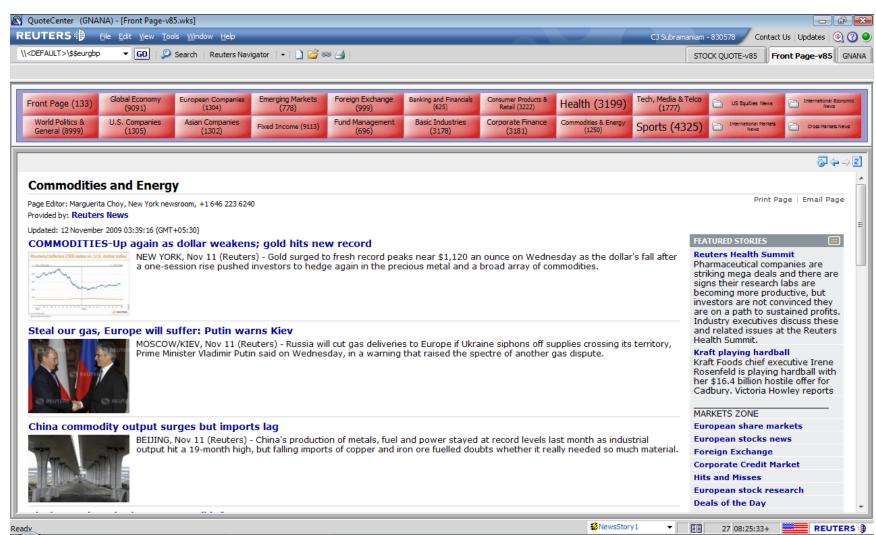
- **✓ Fundamental Analysis**
- **Technical Analysis**

- Study various reports
- Demand/Supply Analysis
- **✓ Gather News**
- Examine economy data
- **✓ Uncover Rumors**
- **✓ Study Related markets**
- Study Price action alone

Study price action alone

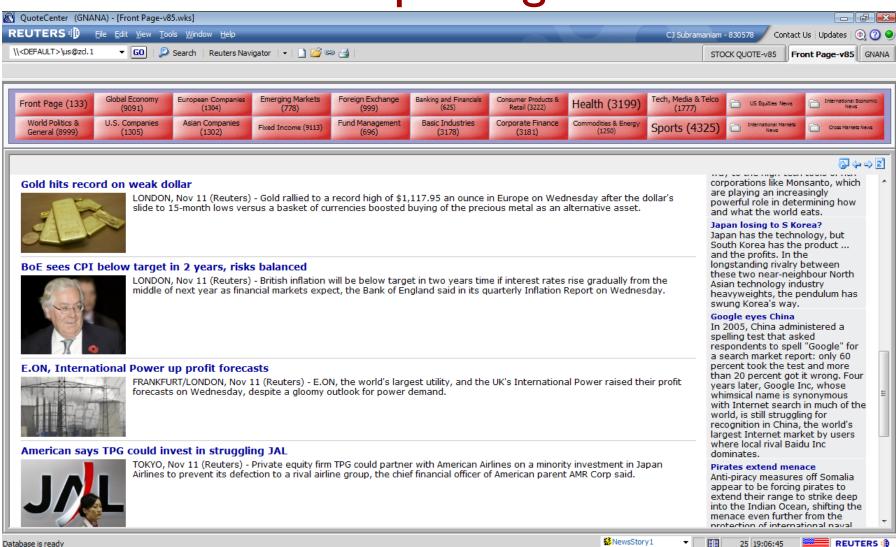


News Impacting Markets





News Impacting Markets



Fundamentals Impacting Markets

Fundamentals impacting the decision classes- (65/100)- BUY

Impact of Production & Supply from Mines- (4/5)

Demand/Supply balance- (7/10)

Investment Demand-(20/20)

Fabrication Demand- (3/10)

Industrial Demand- (1/5)

Exchange Rs/\$, Asian Currencies- (23/25)

Competing products- demand/ supply/ price-(4/5)

Govt. policy- Indian, destination, origins- (-3/10)

OTHER INCIDENTAL UNKNOWN FACTORS(Geo Political Tensions)-(3/5)



