

# COMMODITY PRICE RISK MANAGEMENT- GOLD

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# Commodity price Risk Management

# 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.

# Price Risk Management

## ▲ Sources of **Risk**:

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

# Price Risk Management

Managing Risks:

**1. 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**

# Price Risk Management

## 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*

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

## **Technical Analysis**

***Study price action alone***

# News Impacting Markets

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## Commodities and Energy


Page Editor: Marguerita Choy, New York newsroom, +1 646 223 6240  
Provided by: [Reuters News](#)  
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### COMMODITIES-Up again as dollar weakens; gold hits new record




NEW YORK, Nov 11 (Reuters) - Gold surged to fresh record peaks near \$1,120 an ounce on Wednesday as the dollar's fall after a one-session rise pushed investors to hedge again in the precious metal and a broad array of commodities.

### Steal our gas, Europe will suffer: Putin warns Kiev



MOSCOW/KIEV, Nov 11 (Reuters) - Russia will cut gas deliveries to Europe if Ukraine siphons off supplies crossing its territory, Prime Minister Vladimir Putin said on Wednesday, in a warning that raised the spectre of another gas dispute.

### China commodity output surges but imports lag



BEIJING, Nov 11 (Reuters) - China's production of metals, fuel and power stayed at record levels last month as industrial output hit a 19-month high, but falling imports of copper and iron ore fuelled doubts whether it really needed so much material.

#### FEATURED STORIES

- Reuters Health Summit**  
Pharmaceutical companies are striking mega deals and there are signs their research labs are becoming more productive, but investors are not convinced they are on a path to sustained profits. Industry executives discuss these and related issues at the Reuters Health Summit.
- Kraft playing hardball**  
Kraft Foods chief executive Irene Rosenfeld is playing hardball with her \$16.4 billion hostile offer for Cadbury. Victoria Howley reports

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**Gold hits record on weak dollar**




LONDON, Nov 11 (Reuters) - Gold rallied to a record high of \$1,117.95 an ounce in Europe on Wednesday after the dollar's slide to 15-month lows versus a basket of currencies boosted buying of the precious metal as an alternative asset.

**BoE sees CPI below target in 2 years, risks balanced**




LONDON, Nov 11 (Reuters) - British inflation will be below target in two years time if interest rates rise gradually from the middle of next year as financial markets expect, the Bank of England said in its quarterly Inflation Report on Wednesday.

**E.ON, International Power up profit forecasts**



FRANKFURT/LONDON, Nov 11 (Reuters) - E.ON, the world's largest utility, and the UK's International Power raised their profit forecasts on Wednesday, despite a gloomy outlook for power demand.

**American says TPG could invest in struggling JAL**



TOKYO, Nov 11 (Reuters) - Private equity firm TPG could partner with American Airlines on a minority investment in Japan Airlines to prevent its defection to a rival airline group, the chief financial officer of American parent AMR Corp said.

may be the high cost of other corporations like Monsanto, which are playing an increasingly powerful role in determining how and what the world eats.

**Japan losing to S Korea?**  
Japan has the technology, but South Korea has the product ... and the profits. In the longstanding rivalry between these two near-neighbour North Asian technology industry heavyweights, the pendulum has swung Korea's way.

**Google eyes China**  
In 2005, China administered a spelling test that asked respondents to spell "Google" for a search market report: only 60 percent took the test and more than 20 percent got it wrong. Four years later, Google Inc, whose whimsical name is synonymous with Internet search in much of the world, is still struggling for recognition in China, the world's largest Internet market by users where local rival Baidu Inc dominates.

**Pirates extend menace**  
Anti-piracy measures off Somalia appear to be forcing pirates to extend their range to strike deep into the Indian Ocean, shifting the menace even further from the protection of international naval

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# 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)



Resources

- MCX Com News
- Special Commodity Reports
- Useful Links
  - Bullion Desk
  - CommTrendz - Commodity Advisory Services
  - Dow Jones Newswires
  - IQN-TeleQuote

Useful Links

Links

Websites

- Forward Markets Commission <http://fmc.gov.in>
- Ministry of Agriculture <http://agricoop.nic.in>
- Ministry of Consumer Affairs, Food and Public Distribution <http://fcamin.nic.in>

World Exchanges

- [www.cbot.com](http://www.cbot.com)
- [www.cme.com](http://www.cme.com)
- [www.liffe.com](http://www.liffe.com)
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