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Bank Of India To Propel SLV?

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by: Gold Investors

Summary

- Reserve Bank of India is actively taking measures to support the domestic economy.
- Inverse relationship between precious metals and interest rates should keep SLV above its June lows.
- Outlook could change if India sees better performances in Industrial Production data.

The new Governor of the Reserve Bank of India (RBI) is Urjit Patel is still in the process of defining the monetary policy agenda, and this was made especially clear at the central bank meeting held on October 4th. There, the RBI elected to reduce the repo rate (the rate at which the RBI lends to the banking system) by 25 basis points -- to 6.25 percent. Previously, rate stood at 6.50 percent, and the bank automatically reduced its reverse repo rate by 25 basis point (to 5.75 percent) and the bank rate to 6.75 percent (both the rates are pegged to repo rate). These are trends that could help support the iShares Silver Trust (NYSEARCA:SLV) and prevent the ETF from breaking the June lows near 15.20.

The policy statement indicated the bank's clear intent to continue with its accommodative policy that was designed to achieve its stated inflation target of 5 percent by the fourth quarter of FY2016 -- and a longer-term target of 4 percent in consumer inflation. Progress here can be seen in the chart below:

Chart Source: Modern Forex Trading

The central bank assessed the economy in its report by saying that the slowing global demand, the risk of BREXIT, doldrums in European banking system, and slowing Chinese growth have all pressured the outlook for the global growth. The sharper-then-anticipated drop in trade activity amongst developed and emerging economies, along with the subdued inflationary pressures in advanced economies are acting as a deterrent to growth in emerging markets. Domestically, industrial output was affected by the decline in production of natural resources and electricity, and this is one area of concern that is currently acting on contrast to the rest of the regions macro outlook:

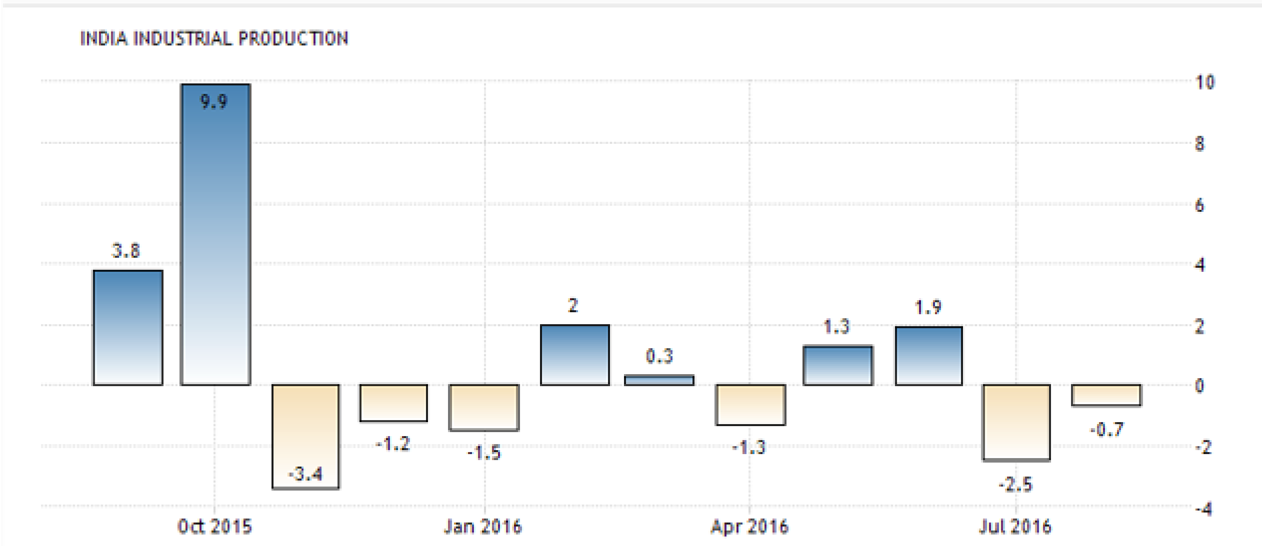

Chart Source: Modern Forex Trading

Currently, the central bank expects that improved rainfall has increased farm production when we combine this with the efforts within the government to curb agricultural prices, it can be argued that the RBI will be able to improve the inflation outlook for the coming quarters. In the alternative scenario, there are chances that we will see cost-push inflation due to the 7th pay commission program, which has increased minimum wages in the country. The RBI also expects that the growth momentum needed to strengthen the economy to projected growth rates of 7.6 percent for the current financial year ending in March 2017 is currently in place in a sustainable fashion.

The reduction in industrial production and government-promoted declines in food prices have prompted the Reserve Bank of India to make its current fiscal policy more accommodative, and the better rain activity has improved the outlook for inflation. Falling industrial production and broader commitment to take India's growth rate above 8 percent will likely support the Reserve Bank of India's accommodative stance for the coming quarters.

Chart Source: Gold Investors ASIA

Overall, these are factors that could limit Asian demand for assets tied to silver and, ultimately, send SLV back toward the highs seen last August. It should be noted that precious demand in India is not the be-all-end-all for silver assets but these are markets that have established themselves in ways that significantly influence the global trends and sentiment outlook. Risk and reward levels favor long positions into the $15 area, so these are all factors that should be viewed as favorable for those looking to gain exposure in precious metals ETFs.

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

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