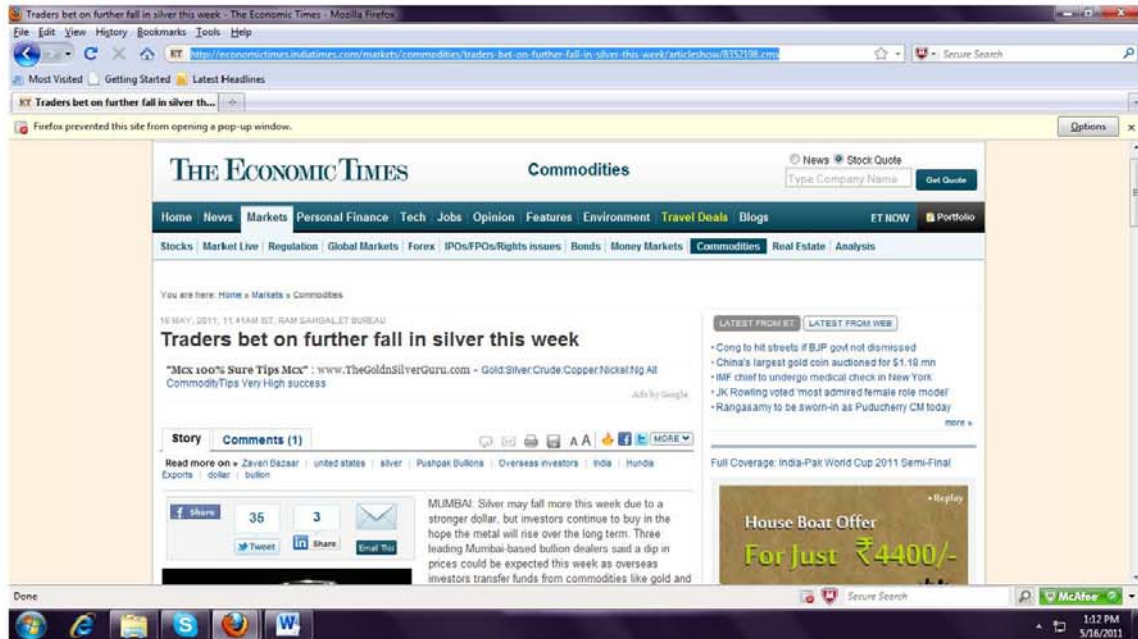


Publication: The Economic Times

Link: <http://economictimes.indiatimes.com/markets/commodities/traders-bet-on-further-fall-in-silver-this-week/articleshow/8352198.cms>

Date: 16th May, 2011

Coverage Page:



Coverage:

THE ECONOMIC TIMES

Traders bet on further fall in silver this week

16 May, 2011, 11.41AM IST, Ram Sahgal, ET Bureau



MUMBAI: Silver may fall more this week due to a stronger dollar, but investors continue to buy in the hope the metal will rise over the long term. Three leading Mumbai-based bullion dealers said a dip in prices could be expected this week as overseas investors transfer funds from commodities like gold and silver to the dollar, which rose 1.2% against a basket of six major currencies over sovereign debt fears in the euro zone. However, they said, investors were using lower prices as a buying opportunity.

"Chances of a further correction, possibly to Rs 48,000 this week, seem to be higher than prices going the other way as the dollar strengthens and investors overseas transfer funds into dollar from commodities," said Suresh Hundia, chairman of Hundia Exports, a silver trader in Zaveri Bazaar. Silver in rupees rose by more than 80% in the past year as overseas investors borrowed cheap funds and invested them in higher yielding assets like precious metals and equities.

Since India is a price taker in silver, overseas price movements adjusted to currency fluctuations get reflected in the local market. Silver hit a record high of Rs 75,770 a kg on April 25 but ended down 26% at Rs 56,156 last Friday because of profit booking at higher levels and a firm dollar. "Prices have risen phenomenally and what we are seeing now is the result of a stronger dollar," said Prithviraj Kothari, director of RiddiSiddhi Bullions, one of the country's largest bullion dealers.

"I think we could see more downside this week." He expects silver to trade at Rs 48,000-Rs 52,000 on the lower side and Rs 57,000-Rs 59,000 on the higher side. Ketan Shroff, MD of Pushpak Bullions, another large silver trader, said chances of a correction could not be ruled out this week but did not quantify the "fall".

Since the price came off from last month, silver has traded in a Rs 21,400 high-low range. A few retail investors, who entered at high levels, are cost averaging, according to Hundia and Shroff. Cost averaging is a method by which a fixed amount is invested periodically into an asset. Using this method, investors buy more of an asset at a lower price than when the price is higher. This reduces the average acquisition cost.

However, cost averaging in a steadily falling market can bleed an investor as the average price of acquisition tends to be higher than the market price. "At one end you have investors who purchased at lower levels booking profits, and at the other price averaging by those who bought when prices were high expecting a recovery to the dizzy highs of last month," said Hundia.

Bullion dealers said bank premiums on silver were steady at around 20-25 cents an ounce, after doubling over the past month on heavy investor demand. Rising demand raised the premium that overseas suppliers charged Indian banks, which passed on the cost to the local buyers. A bullion dealer at a state-owned bank confirmed the premium on silver was around 20-25 cents an ounce.

"Demand for silver is expected to be higher than that of gold which has gone beyond the common man's budget," said the banker. Doubts over a sustained global economic recovery have reemerged with the sovereign debt fears in the euro zone. On the other hand, an economic recovery in the US is expected to raise commodity prices, especially oil. Both these factors, said analysts, could increase demand for precious metal like gold and silver.

Links:

1. [1.http://www.indiaeveryday.in/finance/news-traders-bet-on-further-fall-in-silver-this-week-1258-2611793.htm](http://www.indiaeveryday.in/finance/news-traders-bet-on-further-fall-in-silver-this-week-1258-2611793.htm)
2. http://mmb.moneycontrol.com/india/messageboardblog/message_thread/4836285/6636285
3. <http://kdbulls.blogspot.com/2011/05/traders-bet-on-further-fall-in-silver.html>
4. <http://goldcaddy.com/2011/05/15/traders-bet-on-further-fall-in-silver-this-week/>
5. <http://onespot.wsj.com/india-news/2011/05/15/2bf67/traders-bet-on-further-fall-in-silver>
6. <http://www.headlinesfeed.com/news/traders-bet-on-further-fall-in-silver-this-week>
7. <http://insiderforexsecretsguide.com/106279/traders-bet-on-further-fall-in-silver-this-week-economic-times/>
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