



MAIN TOPICS

- Gold drops by \$40/oz
- US economic data is not really positive.
- Euro stages a large rally
- Holdings of gold ETF still remain at highs.

Rand Refinery Weekly Gold Commentary

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Last week, spot gold prices opened the week at \$1,254 . . . traded as high as \$1,262 on Monday and then dropped as low as \$1198 on Thursday.

While there were no changes in any of the fundamentals that have been driving the gold price upwards, the markets did see a strong rebound in the euro and a large decline in the price of crude oil.

Economic news coming out of the US, in particular the employment report, didn't offer any real positive news and private employers added fewer workers to payrolls in June than forecast, reinforcing concerns the recovery will weaken as Americans curtail spending. Overall payrolls declined by 125,000 last month as the government cut 225,000 temporary workers conducting the 2010 census. Economists projected a decline of 130,000 payrolls, according to the median forecast in the Bloomberg survey. The unemployment rate declined to 9.5% from 9.7% in May.

Soon after the report was released, US stocks declined with the Standard & Poor's 500 Index falling 0.5 percent to 1,022 at 4 p.m. in New York, its lowest close since Sept. 4. The dollar weakened to \$1.2549 to the euro from \$1.2527 late yesterday. And, gold was up just over \$10/oz.

Strong rebound in the euro is hardly a reversal in trend

The Euro surged on the back of a massive wave of short covering on the first trading day of July and a day before US employment data was released. This action in the euro was predominantly sparked by the news that the ECB is going to grant 78 banks EUR 111.2 billion of funds for six days to assist them with the expiry of its 12-month loans in which banks needed to repay 442 billion euros worth of debt by July 01. As the euro rallied, the gold price dropped below EUR 1000 for the first time since June 17.

This rebound was hardly the cause for the price of the yellow metal to drop more than \$40/oz but, it may have precipitated a chain of events that led to the drop in the gold price. Also, I doubt that this rally is a reversal in trend for the euro, especially when the issue of sovereign debt and massive budget deficits still remain very much in focus. One of the problems is going to be the ability of countries in the Eurozone to raise finance. Spain's recent 3.5 billion euro auction drew weak demand (1.7 times the offer) and a higher yield (cost for the government). With weak GDP growth, high unemployment, high national debt and high budget deficits, the future of the euro does not look very promising. And, investors worried about this scenario will continue to do the prudent thing and diversify some of their assets into gold.

"Governments all over the world are debasing money at a rapid rate and that has always led to higher prices for real assets throughout history and it will this time too," Rogers told thestreet.com. Investor, Jim Rogers, a well-known, leading expert on commodities, expects gold will go much, much higher over the next decade. "Rates are going to go much, much, much higher," Rogers says. "I'm judging the world as it goes. I see that actions by governments all over the world are making it worse. So I presume that will continue and gold will go that much higher over the decade."

Holdings of gold in US gold ETF remain close to all time highs

If the inflows to the US gold exchange traded fund (ETF) are anything to judge investor sentiment towards gold, then the outlook for the yellow metal remains very positive. As at July 02, the ETF the holdings were 1318.915 tons, up 185.293 tons from the end of December 2009. What this indicates is that the sell-off in gold last Thursday was spurred by the action of the US bullion banks that are notorious for using the futures markets to suppress the price of the yellow metal. This was certainly not a panic sell off, but a market sell-off precipitated by traders from these houses.

TECHNICAL ANALYSIS



Even though the price of gold dropped some US\$60/oz from its recent high to the lows of Thursday, the long-term trend remains completely intact. I believe that the price will be strongly supported at around US\$1200/oz level, but we may see the beginnings of a new trading range between \$1200/oz to \$1260/oz.



About the author: David Levenstein is an independent precious metals market commentator with more than 30 years experience.

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