



- Gold prices remain volatile
- Gold prices weaker despite a weaker US Dollar
- Central Banks buy more gold
- Gold prices remain range bound between \$1185-\$1220

Rand Refinery Weekly Gold Commentary

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Last Friday, gold experienced its biggest one-day drop since May 21, falling \$20 per ounce. But, the Friday before the exact opposite occurred and gold rose the most in three weeks to close near the highs of the week. The lesson from this is very clear and something that I have alluded to many times in the past. Unless you have a crystal ball it is very difficult to predict short-term price movements. And, like all markets nothing goes up and down in straight lines. This holds true for gold as well. However, the medium and long-term price trends remain very much intact and they are both pointing upwards.

A report from the US TIC data showed that China's treasury holdings fell by \$32.5 billion in May to \$867.7 billion bringing its total to the lowest since June 2009. Furthermore, Japan also offloaded \$8.8 billion in bonds, as did the Oil Exporters. Yet total foreign Treasury holdings increased from \$3,957 billion to \$3,964 billion almost exclusively as a result of ongoing exponential UK accumulation. The UK owned \$180 billion in US Treasuries in December but, has doubled its holdings to \$350 billion in less than half a year. Frankly, I can't understand why investors would want to accumulate more US debt.

The dollar gains on news of Moody's downgrade of Portugal, but then drops after Spanish bond auction

Last week was a very volatile week, not only for gold, but for currencies, global equities, precious metals and crude oil. The week began with a stronger dollar versus the euro on the back of Moody's downgrade of Portugal, but then the euro soared after the auction of Spanish bonds. One day the price of oil was up, the next it was down. As all these factors have an influence on the gold price, it is no wonder the price has been so choppy.

Recently, it has become difficult to determine how the gold price will respond to certain factors. For example, since mid June the US dollar has lost more than 6% of its value as measured by the Dollar Index. Yet, despite its inverse relationship to the dollar the price of gold has also fallen around 5% since its high on June 21. Also, although the prices of gold and oil don't exactly mirror one another, there is no question that oil prices do affect gold prices. If oil prices rise or fall sharply, investors can expect a corresponding reaction in gold prices, often with a lag. However, this relationship has not really worked in recent months.

Gold has often been called the "crisis commodity" because it tends to outperform other investments during periods of world tensions. The very same factors that cause other investments to suffer cause the price of gold to rise. A bad economy can sink poorly run banks. Bad banks can sink an entire economy. And, perhaps most importantly to the rest of the world, the integration of the global economy has made it possible for banking and economic failures to destabilize the world economy.

As banking crises occur, the public begins to distrust paper assets and turns to gold for a safe haven. When all else fails, governments rescue themselves with the printing press, making their currency worth less and gold worth

more. Gold has always risen the most when confidence in government is at its lowest.

Gold will always maintain its historic purchasing power parity

Another major reason investors look to gold as an asset class is because it will always maintain an intrinsic value. Gold will not get lost in an accounting scandal or a market collapse. Economist Stephen Harmston of Bannock Consulting had this to say in a **1998** report for the World Gold Council, “...**although the gold price may fluctuate, over the very long run gold has consistently reverted to its historic purchasing power parity against other commodities and intermediate products. Historically, gold has proved to be an effective preserver of wealth. It has also proved to be a safe haven in times of economic and social instability. In a period of a long bull run in equities, with low inflation and relative stability in foreign exchange markets, it is tempting for investors to expect continual high rates of return on investments. It sometimes takes a period of falling stock prices and market turmoil to focus the mind on the fact that it may be important to invest part of one’s portfolio in an asset that will, at least, hold its value.**”

Today is the scenario that the World Gold Council report was referring to in 1998.

In addition to the abovementioned factors, we have also seen a change of attitude of many central banks around the world. They have become buyers of gold instead of sellers. And, during the month of June the central banks of Russia, Venezuela and the Phillipines added gold to their reserves.

TECHNICAL ANALYSIS



For now, gold prices are locked in a trading range between \$1185 and \$1220 an ounce. Gold is showing signs prices are well supported at the \$1200 level, although a break above \$1220/oz - \$1230/oz is needed to set the stages for much higher gains.



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

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