Wg Weekly Gold Commentary 2013

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MAIN TOPICS

- Gold prices hold above $1220/0z.
- Positive non-farm payroll report has little impact on gold prices.
- Problems in Greece resurface.
- Oil prices tumble.

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Gold prices have begun the year on a positive note against a background of high volatility in equity markets, a strong US dollar and tumbling crude oil prices.

Gold prices back above $1220 an ounce.

The price of the yellow metal was trading at around $1170 an ounce at the beginning of the year and has subsequently experienced a series of rallies including one last Friday which has pushed the price of spot gold to $1223.40 an ounce, an increase of 4% for the year.

Although the latest employment report released from the U.S. Labour Department was relatively positive, suggesting that the U.S. Federal Reserve might be pressured to tighten, or raise rates, sooner than expected, the price of gold moved higher in the wake of the report.

However, gold was already showing signs of climbing back toward $1,220 last Wednesday as investors mulled the Fed's latest minutes. The FOMC minutes for the December meeting showed that policymakers remained confident about the growth and employment outlook, and expected inflation to return to the 2% target gradually.

With regard to the recent sharp sell-off of energy prices, the Fed believed it's a net positive for U.S. economic developments. 'Most participants' believed that 'the recent significant decline in energy prices would provide a boost to consumer spending' while a few members were confident that 'the boost to domestic spending coming from lower energy prices could turn out to be quite large'.

The Fed, which recently changed its language concerning an interest-rate hike from "considerable time" to "patient," suggested that the bank won't be raising interest rates for at least the next two meetings.

The Fed also expressed concern about the ongoing economic turmoil in Europe, which is showing strong signs of deflation. "Many participants regarded the international situation as an important source of downside risks to domestic real activity and employment, particularly if declines in oil prices and the persistence of weak economic growth abroad had a substantial negative effect on global financial markets or if foreign policy responses were insufficient," the Fed minutes showed.

Gold has also been pushed up by political unrest in Greece, which has driven investors to safe assets like precious metals. According to a recent article published by Der Spiegel news magazine, the German government believes that the Eurozone would now be able to cope with a Greece exit if that proved to be necessary.

Both Chancellor Angela Merkel and Finance Minister Wolfgang Schaeuble believe the Eurozone has implemented enough reforms since the height of the regional crisis in 2012 to make a potential Greece exit manageable, Der Spiegel reported.

"The danger of contagion is limited because Portugal and Ireland are considered rehabilitated," the weekly news magazine quoted one government source saying.

In addition, the European Stability Mechanism (ESM), the Eurozone's bailout fund, is an "effective" rescue mechanism and was now available, another source added. Major banks would be protected by the banking union.

The risk of "contagion" is now limited because major banks are protected by the new European Banking Union. The banks are protected but the depositors may not be. Under the new "bail-in" rules imposed by the Financial Stability

Board agreed to last spring, any EU government bailout must be preceded by the bail-in (confiscation) of creditor funds, including depositor funds. As in Cyprus, it could be the depositors, not the banks, picking up the tab.

Greece can regain its sovereignty by defaulting on its debt, abandoning the ECB and the euro, and issuing its own national currency (the drachma) through its own central bank. But that would destabilize the Eurozone and might end in its breakup

Basically, the dollar has not really strengthened in as much as the euro has simply continued to weaken. In addition to the situation regarding Greece, speculation about the ECB starting quantitative easing later this month has continued to increase.

Meanwhile, the price of oil dropped to the lowest level in more than five years on growing evidence that OPEC won't reduce output to reduce a global supply surplus. The United Arab Emirates has no plans to reduce output no matter how low prices drop, according to Yousef Al Otaiba, the nation's ambassador to the U.S. Representatives from Saudi Arabia. Both Kuwait and the U.A.E. stressed a dozen times in the past six weeks that OPEC won't curb output to halt the decline. WTI's discount to Brent shrank to its narrowest since October.

The U.A.E. can live with current market conditions for "a lot longer than people expect," Al Otaiba, recently said. "This extra glut in the market is not coming from the OPEC members, so therefore why should the OPEC members have to cut their production?"

OPEC won't reverse course even if crude prices fall as low as $20 a barrel or non-OPEC countries offer to help with production cuts, Saudi Arabian Oil Minister Ali Al-Nami said in an interview with the Middle East Economic Survey.

Gold prices have broken their relationship with the U.S. dollar and oil.

What is really interesting is that gold seems to be breaking its inverse relationship with the U.S. dollar while not reacting to the drop in oil prices.

As far as I am concerned this is a major game-changer and shows that investors are treating both the dollar and gold as safe havens. In fact, the price of gold in many non-dollar currencies has been surging. The gold price in euros, for example, surged to a 15-month high above 1,000 euros in recent days.

This is an important development in the gold market and signals growing confidence in the yellow metal as an alternative currency or an alternative safe haven to the U.S. dollar. If economic troubles around the world continue to mount, both the dollar and gold could continue to rally in 2015.

I beleive that the main reason why 2014 was not an eventful year for gold despite all the strong fundamentals suggesting otherwaise, was becuase of the continual maniplulation by central banks. The global debt situation is much worse than a few years ago and real economic growth is near zero. Income inequality is rising faster than ever before. The Federal Reserve's balance sheet expanded from about USD890 billion to more than USD4.5 trillion since end-2007 and the only outcome so far has been an artificial spike in different asset classes and an expansion of the welfare-warfare state.

History shows that it is not possible to fight over-indebtedness by piling up even more and more debt. And as I have mentioned before, exploding government debt is not sustainable. Eventually, the system collapses.

The Eurozone faces growing difficulties, which could lead to major political and economic upheavals in 2015. Russia and her allies may have it in their power to destabilize the west's financial system.

Furthermore, if U.S. economic recovery builds to the point where interest rates rise again, a global debt crisis is likely to ensue.

All this is against a background of deteriorating government finances as welfare costs continue their inexorable rise, adding to national debt burdens at an accelerating rate.

And, finally, demand for physical metal from Asia is going to continue. The upcoming Lunar New Year holiday in China, which occurs in February, has also bolstered physical demand, as gold is a traditional gift for the occasion.

No asset has had as much history of purchasing power as gold. Fiat currencies are unreliable as they are not backed by any asset of value. Their worth depends entirely on the stability of governments which are subject to collapse over time.

Our current financial system is doomed to fail, thanks to government monetary policies. It is a matter time before this happens. And, when it comes to preparation, it is better to be 5 years too early rather than 5 minutes too late when it does happen.

Physical gold coins and bars are an unequalled safe-haven and it is essential to accumulate these before the collapse occurs.

TECHNICAL ANALYSIS

Gold prices continue their upward move from the bottom in mid-November. I expect to see a move in the short-term to the resistance at $1240/oz.

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