Wg | Weekly Gold Commentary | 2013

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MAIN TOPICS

- Greek crisis provides support to gold
- Venezuelan bolivar plummets.
- New gold fund set up in China
- Austria to repatriate some of its gold.

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Overall, it was a rather quiet trading week for the global gold market as the upward momentum in prices ran out of steam hitting resistance at around $1220 an ounce.

Gold prices supported by on-going Greek crisis.

Despite a mild rally on Friday, gold prices fell for the second week in a row. The price of the yellow metal edged up on Friday from the previous day's 2-1/2-week low, supported by a slightly weaker dollar and uncertainty over Greece's debt talks. Although, down on the week, the price of spot gold settled at $1190 an ounce.

On-going concerns over a potential Greek debt default weighed on the global financial and gold markets last week as G7 leaders scrambled to try to come up with an 11th hour bailout package. Greek officials said they remain hopeful an agreement with lenders can be reached by Sunday. If no deal is reached, then Greece will seemingly be left with no option but to default on its debt next week.

Customers are abandoning Greek banks in droves as doubts over the country’s economic future grow. In the last three days or so, a staggering €800 million (£570 million) has been pulled out of Greek banks, sparking fears of a major bank run.

The country, which has been stuck in a deep debt crisis for the past five years, is due to pay back €300 million (£210 million) to the International Monetary Fund this Friday.

However, the IMF has said that deadline could be pushed back until later in June.

The bailout expires on June 30 and without it, Greece is likely to run out of cash and face being pushed from the Eurozone.

Greece is currently seeking the release of €7.2 billion of aid that has been frozen since last year.

To gain access to it, the country must provide a convincing reform programme to its bailout monitors - the IMF, the European Commission and the European Central Bank.

Recently, the IMF head Christine Lagarde said that a Greek exit from the euro is a "possibility" and that the situation is unlikely to be resolved ahead of a vital deadline next week.

Greece is due to make a debt repayment to the IMF this week, but is almost completely out of cash.

Without a bailout loan of €7.2billion (£5.6billion) the debt-stricken country is near certain to default, which could tip Greece into a chain of events that ends with an exit from the Eurozone and the European Union.

Despite months of negotiations, Greece has been unable to agree the terms of the loan with its creditors.

Fearing a total financial collapse, savers have been withdrawing cash out of their bank accounts and the government has struggled to make benefit payments.

According to data from the European Central Bank, Greek bank deposits are now at their lowest level since 2004, falling to $198.89 billion from more than $242 billion just five months ago,

Although we have seen crisis after crisis come and go with various kick-the can mechanisms, at some point, it now seems that the crisis in Greece is highly likely to come to a head in June.

Greece isn't the only nation facing a solvency crisis. In a way, Greece is the least of the world's debt problems. The Greek economy represents less than 0.4% of world GDP. If Greece goes under, the world economy won't be effected in the least.

However, if Greece fails, there is a real possibility of contagion. Greece is the smallest of the so-called PIGS countries. The others – Portugal, Italy, and Spain – are larger dominos that could potentially fall. Down the line, the world's third largest economy, Japan, has a debt to GDP ratio that is as large as Greece's. The United States isn't far behind. Total U.S. government debt recently came in at 100% of GDP – which makes it more leveraged than most Third World countries.

More than $200 trillion in total unfunded liabilities loom for the U.S. taxpayer as of 2015. These obligations can't be paid in 2015 dollars. It's mathematically impossible. But that doesn't necessarily mean default is inevitable. Unlike Greece, the U.S. controls its own currency. If the dollars needed to pay the U.S. government's bills don't exist, the Treasury Department can always issue more debt and sell it to the Federal Reserve. The Fed simply creates an electronic entry showing the U.S. Treasury has new digital dollars that didn't exist before. It's the magic of fiat currency.

There is absolutely no upper limit to how much the Fed can digitally print. So while default is a very real risk for holders of Greek bonds, the real risk facing holders of U.S. bonds may be that of inflation.

Venezuelan bolivar plunges pushing up inflation.

In yet another case of a collapsing currency, today, Venezuelans faces rampant inflation, with the bolivar now practically worthless.

The bolivar has lost more than half its value this year, plunging to 400 per dollar on the free market as Venezuelans scramble to convert their savings into a more stable currency. Desperate, people are selling bolivars for a rate 60 times weaker than the strongest of country's three official exchange rates."

According to a Forbes report, "It's been five months since Venezuela published inflation data. The most recent figure of 68.5% is the highest in the world." And Barclays economist Alejandro Grisanti estimates the inflation rate now stands over 100%.

It's gotten so bad that major companies are finding ways to avoid doing business in Venezuelan currency. Several major airlines have stopped booking tickets in bolivars, and Ford Motor Company reportedly just reached a deal with government officials to sell trucks for US dollars only.

People in the private sector are also seeking ways around the worthless Venezuelan currency.

Meanwhile, a new gold sector fund involving countries along the ancient Silk Road has been set up in northwest China's Xi'an City.

The fund, led by Shanghai Gold Exchange (SGE), is expected to raise an estimated 100 billion yuan (16.1 billion U.S. Dollars) in three phases.

Among the 65 countries along the routes of the Silk Road Economic Belt and the 21st-Century Maritime Silk Road, there are numerous Asian countries identified as important reserve bases and consumers of gold.

About 60 countries have invested in the fund, which will in turn facilitate gold purchase for the central banks of member states to increase their holdings of the precious metal, according to the SGE.

"China does not have a big say in gold pricing because it accounts for a small share of international gold trade," said Tang Xisheng of the Industrial Fund Management Co. "Therefore, the Chinese government seeks to increase the influence of RMB in gold pricing by opening the domestic gold market to international investors."

According to Tang, the fund will invest in gold mining in countries along the Silk Road, which will increase exploration in countries such as Afganistan and Kazakhstan.

Another central bank has announced plans to repatriate its gold. This time it is Austria. The nation's central bank plans to repatriate some of its gold reserves from Britain after facing criticism for storing too much of the precious metal abroad, it said on Thursday.

The Austrian National Bank, which administers Austria's 280 tons of gold reserves, said by 2020 50% of the reserves would be kept in Austria, 30% in London and 20% in Switzerland.

It currently keeps 80% of its gold reserves, which have been unchanged since 2007, in Britain, 17% in Austria and 3% in Switzerland.

Nobody in the mainstream media is talking about an inflation problem right now. But by the time inflation becomes enough of a problem to command the attention the main stream media, precious metals prices very likely be will be trading at significantly higher levels.

Put another way, inflation insurance in the form of hard money will be more expensive. At current prices, gold is undervalued relative to the long-term financial disaster protection they provide.

TECHNICAL ANALYSIS

For the moment, gold prices have been capped at around $1220 an ounce and continue to trade sideways.

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