Wg Weekly Gold Commentary 2013

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RAND REFINERY

MAIN TOPICS

- Gold prices fall.
- Greek delays payment to IMF.
- South African Rand falls to 13 year low.

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Gold prices finished lower for the third week in a row ending $18 (1.5%) lower for the week.

Gold prices fall below $1180 an ounce.

The price of the yellow metal continues to be range bound as traders contemplate the possibility of a rate hike in the U.S and the consequences of a Greek exit from the Euro. The price of gold slipped below a support level of $1180 an ounce to settle at $1172.30 an ounce for the week.

On Friday, Greece missed a debt payment to the IMF. That did not constitute a default because IMF rules allow multiple payments within a month to be bundled on the last due date. That trick was last used by Zambia in the 1980s.

Greek Prime Minister Alexis Tsipras demanded changes to tough terms from international creditors for aid to stave off default.

Tsipras described the EU-IMF lenders' plan as a "bad moment for Europe" and a "bad negotiating trick".

He accused Greece's lenders of massively backtracking on measures agreed in recent months, and of failing to see the need for an end to austerity in their latest offer.

The lenders' proposals were put forward when Tsipras met the head of the Eurozone's finance ministers, Jeroen Dijsselbloem, and European Commission President Jean-Claude Juncker in Brussels this week.

Denouncing their offer on Friday, Tsipras said: "The strangulation of a country is a matter of moral order which conflicts with the founding principles of Europe."

He said the aim of any deal should be "for a solution and not to... humiliate a whole people".

Tsipras heavily criticised the latest deal offer made by Jean-Claude Juncker in a rant to the Greek parliament. Tsipras said he was "unpleasantly surprised" by the proposal put forward by the International Monetary Fund, European Central Bank and European Commission during his visit to Brussels for talks with commission head Jean-Claude Juncker.
"*I would like to believe that this proposal was an unfortunate moment for Europe, or at least a bad negotiating trick, and will very soon be withdrawn by the same people who thought it up*," he said.

After blasting Juncker's deal, Tsipras picked up the phone and made a call to Russian President Vladimir Putin. They agreed to meet in two weeks at the St. Petersburg International Economic Forum.

At the same time, Greek Economy Minister George Stathakis said that Greece cannot accept the latest proposals for a cash-for-reforms deal put on the table by its international lenders but was prepared to negotiate a compromise,

Stathakis said Greece had the money to pay, but had accepted an offer from the IMF to bundle four payments due in June into a single 1.6 billion euro lump sum due at the end of the month.

"We are looking forward to getting a deal as soon as possible," he told BBC Radio, but said that while Greece was ready to discuss compromises, it would not accept proposed fiscal adjustments for 2015 and 2016.

When asked if Greece was prepared to leave the Eurozone, Stathakis said. "Our government has a mandate to remain in the euro and get a better deal to ... try to change the terms of the agreement that we have with European partners," he said. "Greece has to remain within the euro."

Greece is in a real predicament. While the Greek government owes money to the Troika, aka the creditors, it is also dependent on these creditors to prevent the local banking system from a total collapse.

Greek banks depend on the ECB for some €80.7 billion in Emergency Liquidity Assistance which was about 60% of total deposits in the Greek financial system as of April 30. In other words, they are woefully insolvent and only the day to day generosity of the ECB prevents a roughly 40% forced "bail in" deposit haircut the likes of which were seen in Cyprus.

The Greek financial system has an additional problem which is the resolve of its depositors who have become increasingly concerned about the local banking system.

According to banking sources cited by Intelligent News, depositors "responded with massive outflows_to the Greece's government decision to bundle the four tranches to IMF into one by the end of the June."

According to banking sources, the net outflows on Friday sharply increased to around 700 million Euros from 272 million Euros on Thursday.

The total net outflows in the last 7 business days are estimated 3.4 billion Euros threatening the stability of the Greek banks.

This means 2.5% of all Greek deposits were pulled in just the past 5 days!

Everyone knows that something has to give and that it will probably happen this month. It is obvious that Greece does not have the money to pay the Troika and that it won't accept the current deal.

Many analysts are of the opinion that Greece should default on the debts and then re-introduce the Drachma at an extremely depreciated value. This would result in further hardship for the citizens of Greece, but at the same time would be encourage new Foreign Direct Investment as well as being a massive boost to the Tourism industry. And, in about a years' time, the country could see some very positive signs of a new recovery. But, the problem with this is, that European financial leaders would be totally against this as it may prompt other countries such as Portugal and Spain to adopt similar policies.

In India the premium for gold dropped sharply following a report by India's meteorological department. According to report, the monsoon season is likely to remain subdued this year. The forecast claims that the country is likely to receive only 88% of its long term average rainfall this year. This is far below the typical levels of 96%-104%. The deficient rains are feared to dent gold demand in the country, as rural population accounts for 60% of the Indian gold demand. Poor rains may adversely affect the agricultural output, which in turn may impact gold buying.

Gold inventories in the country are reportedly at high levels on account of increased gold imports and waning demand. India imported 81 tons of the yellow metal in April this year, following excessively high imports of 125 tons during March. Although imports cooled off during May, the monthly imports are likely to be around 65-70 tons.

With wedding season coming to an end in June, the period until October is likely to witness a slowdown in gold purchases. As per industry sources, 40% less number of auspicious days for wedding as per Hindu calendar may result in sharp drop in gold demand during second half of 2015 in comparison with 2014.

Premiums for the yellow metal are currently $0.50 above the international price. Also, gold for immediate delivery was available at discounts of $3-$4 per ounce on recycled gold bars.

South African Rand falls to a 13 year low against the dollar.

South Africa's rand fell to a 13-1/2-year low against the dollar on Friday in nervous trade hours ahead of a Fitch credit rating review and a stronger dollar buoyed by strong U.S. jobs data.

The rand fell to a session low of 12.6600, its' weakest since Dec. 2001, according to Thomson Reuters data. It was trading at 12.6150/dollar by 1550 GMT, down 1.82 percent from Thursday's close.

Fitch Ratings affirmed SA's sovereign credit ratings at BBB and maintained a negative outlook as expected on Friday. The affirmation means SA's borrowing costs remain unchanged.

The conclusion of wage negotiations in the public sector without a strike, government's fiscal consolidation, and expectations for the budget deficit to narrow and for the economy to improve by 2017 were among factors that supported the affirmation.

But the agency warned that weak economic growth, failure to reduce the budget deficit and stabilise government debt, and failure to materially narrow the current account deficit, were factors that could lead to a downgrade in future.

Economic growth was revised slightly and forecast at 2.1% this year and 2.3% next year. Growth was then seen picking up to 3% in 2017 as energy constraints started to ease somewhat.

Global distrust is leading to increasing tensions among nation-states, and it's having an effect on worldwide gold storage, with Austria, Germany, the Netherlands, Russia and Venezuela moving some of the gold they've stored in New York, London and Paris back to their home countries.

In several of my recent commentaries I have discussed the Fed and its potential plans to begin hiking interest rates. One week it seems as if rates will increase, the next week the central bank is not sure. The Fed has consistently stated that any decision with regards to interest rates would be "data dependent." I have also maintained that the Fed's policy is much more important for the stock markets than it is for gold prices.

Interest rates have been held at zero for years now and the system has been flooded with massive sums of money through quantitative easing which has created an artificially strong stock market. But, it has not really stimulated the economy and for me it has been a failed experiment. But, now, the Fed is facing a serious dilemma. If the Fed starts hiking too much too fast, it could stall the fragile recovery. The Fed seems to recognize and acknowledge this, and thus has stated that any rate hikes would be small and incremental.

Gold prices are not driven by monetary policy alone and this is why I believe that this fixation on interest rates is pointless. There are many factors that drive gold prices and it is for this reason that I believe that the remainder of 2015 and 2016 could be stellar years for the yellow metal whether interest rates go up or not.

TECHNICAL ANALYSIS

The recent upward move in gold prices has been capped and once again there is a negative bias showing on the charts. However, there is support at $1170/oz. and then $1150/oz. I still maintain that prices have reached a bottom area and are due for a large move to the upside.

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