Wg Weekly Gold Commentary 2013

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MAIN TOPICS

- Gold prices rally from recent lows.
- Greek debt crisis continues.
- Seasonal lows for gold in June.

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The price of gold was slightly firmer last week for its first weekly rise in four weeks, capitalizing on gains made earlier in the week, when the weak dollar and increased worries over Greece's talks with its international lenders provided support.

Gold prices supported by Greek crisis and possible rate hike by U.S Federal Reserve.

Despite renewed selling pressure late in the week, gold prices managed to hold on and close the week in positive territory. While investor sentiment remains mostly negative, the price of the yellow metal seems to be caught in a tug of war between the uncertainty over the Greek debt crisis and expectations that the U.S Federal Reserve will raise rates as early as September

Investors are worried about the worsening Greek debt crisis while many market participants believe that the metal could fall lower before the end of the year due to a possible Fed interest rate hike.

On Saturday, Greek Prime Minister Alexis Tsipras sent a delegation to Brussels with a new set of proposals in an attempt to break the deadlock with creditors and allow emergency funds to reach the country so that it can avoid default.

The delegation from Greece will meet officials from the International Monetary Fund, the European Central Bank and the European Commission that are withholding money unless their demands are met.

Greece’s creditors have become increasingly aggravated because Greece has not yet proposed the necessary cuts to pensions and public sector wages that are necessary to unlock the funds required to keep Greece solvent.

The mounting worry is that the government may not be able to meet its bill for salaries and pensions this month.

Talks between Greece and its creditors reached an impasse on Friday, sending a shockwave through stock markets.

The situation with Greece is that it owes the International Monetary Fund about $1.7 billion this month. Then, in July and August, the European Central Bank is due almost 6.8 billion euros ($7.6 billion).

The euro-area backed bailout program expires on June 30, with creditors refusing to release up to 7.2 billion euros in remaining funds before Athens complies with belt-tightening conditions.

According to the Bild newspaper, the German government has begun planning for a Greek default.

Frankly, I can’t see how it is possible for Greece to repay its debts, and I have long maintained that a Greek exit is imminent. However, it is possible for the financial leaders to continue to kick the can down the road and extend more time for Greece.

Meanwhile, most speculators remain fixated on whether the Fed will raise rates or not.

The U.S. central bank will begin its two-day meeting on Tuesday, with a statement to be released on Wednesday afternoon.

It is widely expected that the Fed will not change current monetary policies but will hint at a September rate hike. As the Fed remains data dependent, it is difficult to predict what their actions will be. Almost as soon as there is a release of some positive economic data, some bad news follows.

Data on Friday showed U.S. producer prices in May recorded their biggest increase in more than 2-1/2 years, while U.S. consumer sentiment rose more than expected in June. However, only a day before, the International Monetary Fund (IMF) reported that it had slashed its growth outlook for the U.S.
The IMF now sees U.S. GDP at 2.5% for 2015, down from the 3.1% it was predicting as recently as April. But it didn't stop there. It also advised the Federal Reserve to hold off on an already-long-overdue interest-rate increase until the first half of 2016, citing "pockets of vulnerabilities" in the U.S. including lagging wages and a still-struggling labour market.

It also warned that the dollar is "moderately overvalued" and that a further marked appreciation would be "harmful."

The IMF said the Fed should keep its cheap money flowing even if there's a risk of "slight over-inflation" relative to the central bank's 2% inflation target.

If this slowdown in the U.S persists, the Fed would be under even greater pressure than before to boost growth via inflation-inducing monetary policies like zero interest rates. The only problem is: The Fed has had its key rate stuck at zero since 2008; it can't go any lower. The only action it can take, is more quantitative easing (QE), or purchases of Treasury bonds and mortgage-backed securities.

Gold prices drop to seasonal low in June.

Meanwhile, as the price of gold continues to languish near major lows and while traders remain bearish, it is interesting to note that based on past trends, the price of gold tends to drop to a seasonal low during June.

On average between 2001 and 2012 before the introduction of quantitative easing, causing serious market distortions, gold moved higher between mid-June and early October.

In the unlikely event that the Fed raises rates in September, gold looks poised to continue higher over the long-term as investors will likely seek out its wealth preservation qualities as the U.S. Dollar continues to lose value in real terms.

The global economy is not strong, and in fact could not tolerate higher interest rates. The ongoing currency war will also serve to keep currency values down as economies fight to keep moving forward.
The continuing depreciation of the dollar and other fiat currencies has already been set in motion and the only one asset class can offer meaningful protection from this inevitable scenario is gold. It has stood the test of time as a reliable store of value not dependent on government promises or obligations.

Current gold prices offer investors the best time of the year to buy physical gold. Smart investors and speculators buy when prices are low and when sentiment is miserable.

TECHNICAL ANALYSIS

Gold prices continue their lacklustre performance as prices remain stuck between $1180/oz. and $1220/oz.

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