Wg Weekly Gold Commentary 2013

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MAIN TOPICS

- Fed keeps rate unchanged
- Greek crisis provides support to gold
- Chinese bank becomes part of gold fix.

22 June 2015

On Friday, although the price of gold slipped a tad, it was up by 1.8% for the week, to settle higher for the third week in a row.

The main drivers behind the higher gold prices last week were the continued investor concern regarding the Greek debt crisis and the US Federal Reserve's dovish approach to interest rates.

U.S. Fed maintains rate at current levels.

As widely expected, the Federal Open Market Committee (FOMC) did not raise the federal funds — which is the overnight borrowing rate for banks. The Fed has kept interest rates near zero since December 2008, and last Wednesday policy makers unanimously voted to keep them there.

New forecasts from the Fed's 17 policymakers released after the central bank's policy-setting meeting last week suggest four officials who in March recommended two rate hikes this year now want only one.

Traders have been fixated on whether or not the Fed will hike rates and have taken a view that higher rates mean lower gold prices. It was originally speculated that the Fed would raise rates in the June meeting, but that expectation dissipated quickly over the last several months when economic data showed rather stagnant growth in the U.S. Now it seems that the Fed may wait until December to raise rates, rather than increase them in September as many traders have been expecting.

The Fed said it won't raise interest rates until there's further improvement in the labour market. In her press conference Yellen emphasized areas where the jobs picture could look better — and cited very gradually improving measures.

"Some cyclical weakness in the labour market remains," she said, highlighting the depressed participation rate, subdued wage growth and an elevated share of people working part time for economic reasons. "Although progress clearly has been achieved, room for further improvement remains."

A recent note from Bank of America Merrill Lynch reminded investors that in 1937 — the last time the Fed had to raise rates from zero — a severe recession resulted, led by a 49% collapse in the Dow just when central bankers thought the Great Depression might be lifting.

The danger is that if the Fed acts too fast, we might see a repeat of 1937. But if the Fed waits too long, it might have to tighten even more aggressively than is prudent, with similarly grave consequences for stocks and bonds. That occurred in the months leading up to the 2000 dot-com implosion.

As the Fed struggles to unwind its unprecedented money-printing experiment, the colossal uncertainties and potentially dangerous repercussions ahead demand diversification.

Greece and Eurozone leaders to meet at summit.

Meanwhile, Eurozone leaders will try to reach an agreement on Greece's bailout at a hastily called crisis summit today.

Bankers said that about €4.2 billion flooded out of Greek accounts last week, with €1.2 billion withdrawn on Friday alone, despite central bank efforts to restore calm.

On Wednesday, the ECB signed off on another €1.1 billion, taking the emergency loans to €84.1 billion. But with deposit outflows approaching around €1 billion a day in Greece, banks may soon run out of liquidity without additional central bank loans.

It has been reported that government members have put together a plan they hope will achieve the budget targets that the country's bailout creditors want, while relying more on eliminating tax breaks and less on pension cuts than the lenders' proposal, the officials said.

Failure to agree on Monday could quickly lead Greece to establish capital controls, and could prompt the ECB's governing council to limit the provision of central-bank liquidity to Greek banks as early as next week. Such a move would force Greece to cap bank withdrawals, money transfers abroad and other financial transactions, plunging Greece's economy deeper into recession.

Total global debt has recently been calculated at $223 Trillion dollars. World debt has increased some 40% since the crisis of 2008-2009. The $223 Trillion is actual debt, and does not include the potential debt lying in derivatives of this debt, which is another huge amount.

The problem is that most of this debt is held in government bonds and while central bankers pushed down interest rates all over the world to absurdly low levels, prices of these bonds increased substantially. But, if interest rates rise, these bond prices are going to fall which could result in a widespread desire to dump bonds for cash. And, if this should occur, it could lead to a global selling panic.

A Greek default alone would be small in the global scheme of things. However, if Greece does default, the focus may soon move on to the far more serious issue of potential Greek exit from the Eurozone itself

Such a move would undermine investor confidence in the rest of the region which could result in contagion from Greece to other bond and equity markets in the Eurozone. And, in such an instance, the gold price is likely to climb a lot higher.

In another major development for the global gold market, a Chinese bank has been given a seat at the table of London's new auction mechanism for the setting of benchmark bullion prices.

"Bank of China Ltd. will become the first Chinese bank to join the auction process that sets gold prices in the London market," Bloomberg reported. "The bank, along with seven other lenders, will start participating in the twice-daily electronic auction, according to a statement from the London Bullion Market Association on Tuesday. While China is the world's largest bullion buyer, it has never directly played a role in determining London gold prices."

This is a significant advance as China aims to increase the stature of its yuan currency on the global stage, particularly by joining the IMF's basket of world reserve currencies known as SDRs. It's already the No. 1 gold producer in the world and the top global consumer alongside India. As its gold-trading infrastructure in places like Shanghai has expanded, offering an increasing number of yuan-denominated bullion investment products, its ascension to a price-setting role in London was inevitable.

TECHNICAL ANALYSIS

Gold prices remain range-bound between $1180/oz. and $1220/oz.

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