Wg Weekly Gold Commentary 2013

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MAIN TOPICS

- Greek government imposes capital controls.
- Banks in Greece close.
- Demand for gold in China increases.

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Gold prices fell last week to trade back below the $1200 an ounce level despite the on-going financial debacle with Greece and its creditors as well as a sharp fall in Chinese equities.

Gold prices ended down $26 (2.2%) on the week after the price of the yellow metal fell earlier on in the week when it seemed as if a deal between Greece and its' creditors looked possible. Even though a chance of a resolution quickly dissipated before the end of the week, gold prices never rebounded.

Greek government imposes capital controls.

The Greek government has closed the banks and have imposed capital controls after the European Central Bank (ECB) froze vital funding support to Greece's banks, leaving Athens with little choice but to shut down the system to keep the banks from collapsing.

Banks are expected to be closed all this week, and there will be a daily 60 euro limit on cash withdrawals from cash machines, which will reopen on Tuesday. Capital controls are likely to last for many months at least.

Greece is bankrupt. The government has more obligations than they can possibly meet. The Greek banking system has been relying on special liquidity support from the European Central Bank (ECB) in the face of a spate of withdrawals by worried citizens.

On Sunday, the Greek Parliament approved Prime Minister Alexis Tsiparis' motion to hold a referendum on Greek creditors' fiscal reform proposal. The vote, scheduled for July 5, will ask Greek citizens whether they should accept a debt financing deal negotiated with European lenders.
"The creditors have not sought our approval but have asked for us to abandon our dignity. We must refuse," Prime Minister Alexis Tsipras said in urging voters to reject the deal.

Greece owes the International Monetary Fund some 1.6 billion euros, due Tuesday. Its bailout program expires on the same day. Unless it receives an infusion of new funds, Greece may face a collapse of its economy and be required to leave the euro.

The announcement of the referendum resulted in massive cash withdrawals by individuals around the country--further jeopardizing the country's fragile banking system.

The surprise decision by Tsipras, prompted lines of people at ATMs across the country as Greeks worried the crisis could shortly lead to restrictions on capital movements and potentially an exit from the European single currency.

The head of the Greek Bank Association Louka Katseli said on Saturday ATMs of banks were being replenished smoothly. Ms Katseli, who also chairs the National Bank of Greece, told the Athens News Agency that wherever "isolated problems" appeared, they were being dealt with "as soon as possible" by the Central Bank of Greece.

People don't trust the government anymore as banks set a maximum withdrawal of €1000, but some cash machines still ran out of cash by mid-morning. This could lead to despair, and then panic.

Fears are growing over the health of Greek banks after indications that savers have withdrawn billions of euros in the past week. More than one-third of automated teller machines across Greece ran out of cash on Saturday before they were replenished as Greeks pulled out money on fears their country was set to crash out of the euro.

According to sources working at the banks, about 35% of the ATM network — some 2,000 out of the 5,500 ATMs across Greece — ran out of euro banknotes at one point during the day and were being replenished. Banks were working in coordination with the central bank to keep the network fed with cash, they said.

Around 600 million euros was withdrawn from the banking system on Saturday, one senior banker at one of Greece's four big lenders told Reuters. A second banker estimated the outflow at more than 500 million euros.

Though that was below the level of over 1 billion euros seen on some days over the past two weeks, the figure was almost exclusively from ATM withdrawals, where the average daily limit of cash that can be taken out is 600 to 700 euros, bankers said.

"Demand for cash is definitely higher than what you see on a normal Saturday," one of the bankers said.

"This does not mean that there are lines everywhere but we are trying to keep ATMs fed with banknotes."

The ECB has been allowing Greek banks to draw emergency credit from Greece's central bank, a financial lifeline that has been keeping Greece's four major banks going during the country's tense bailout negotiations with creditors. The ECB has been slowly increasing the emergency credit to compensate for the increase in withdrawals from Greek banks.

I maintain that the only solution will be a Greek exit. It's for the best interest of that country. While in the short term, Greece will suffer financially, I have little doubt that the country will recover within a year after dropping the euro. I also think we're going to see more of the European countries move towards having relationships with Russia because they want to do trade.

Demand for physical gold in China increases.

Meanwhile, there are signs that Chinese investors might be converting some of their financial assets into physical gold as demand for physical gold in China increases. .

Withdrawals of physical gold from the Shanghai Gold Exchange and Shanghai International Gold Exchange jumped 41% in the trading week 8-12th June from the previous week, while year-to-date withdrawals are up 20% cent to an incredible 1,061 tons. That’s more than China’s entire last officially declared gold reserve. It represents a massive conversion of paper assets into bars of the precious metal.

The 8-12th June gold rush came before the Shanghai Composite began to sell-off late last week, quickly entering a bear market with stocks down more than 20%.

In other news, according to the latest Swiss export data which show that in May this year, Hong Kong (36.4 tons) was the largest importer of Swiss gold, followed by India (24.7 tons) and Mainland China (18.8 tons), thus again showing that 34% of the combined Swiss gold exports to Hong Kong plus Mainland China went directly to the latter, bypassing Hong Kong altogether.

These figures also suggest that overall Chinese demand remains relatively strong while Indian demand may be slipping ahead of the monsoon, although total exports to the three nations has fallen off somewhat compared with earlier in the year.

With so many reasons as to why the gold price should be a lot higher, one wonders why gold prices continue to languish near major lows. The major factor behind this weakness is extreme shorting by speculators and bullion banks on Comex. However, their actions are helping prudent investors to accumulate more physical as they diversify out of paper assets and into precious metals at the current low prices.

Gold and silver bullion coins and bars are traditional diversification tools. No one knows where the world economy is ultimately heading. That’s why the safest course of action remains not keeping all your eggs in one basket. Instead, you should diversify a portion of your assets to non-paper assets such as gold.

TECHNICAL ANALYSIS

Gold prices remain trapped in trading range between $1180/oz. and $1220/oz. I expect prices to rebound from the lower end of this range.

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