Wg | Weekly Gold Commentary | 2013

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MAIN TOPICS

- Greek voters vote no in referendum.
- Puerto Rico averts a default.
- Chinese equities plunge.

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Gold prices remained under pressure last week, but did see a marginal rebound on Friday. Despite Greece's failure to meet its deadline to pay 1.6 billion euros it owed to the International Monetary Fund (IMF) last Tuesday, and as Chinese equities continued to plummet, gold prices did not respond as one may have expected, and instead remained under a degree of pressure as some investors continue to place their faith in the U.S. dollar and Treasury bonds.

On June 30 Greece defaulted by not paying the IMF €1.6 billion, and became the first developed country to miss a payment to the IMF. Tuesday also marked the end of Greece's years-long bailout program.

After a series of unsuccessful negotiations, in which no deal was able to be reached concerning an extension of funding for the country, Greece imposed capital controls and closed its banks. The Greek government then called for a referendum which took place yesterday.

Greek voters reject the terms of anymore austerity.

The results showed that voters decisively rejected the terms of an international bailout. The final result in the referendum, published by the interior ministry, was 61.3% "No", against 38.7% who voted "Yes".

Greek Prime Minister Alexis Tsipras said that Greeks had voted for a "Europe of solidarity and democracy". In a televised address he said. "As of tomorrow, Greece will go back to the negotiating table and our primary priority is to reinstate the financial stability of the country."

However, some European officials have said that a "No" would be seen as an outright rejection of talks with creditors.

Jeroen Dijsselbloem, who heads the Eurozone's group of finance ministers, said the referendum result was "very regrettable for the future of Greece".

Germany's Deputy Chancellor, Sigmar Gabriel, said renewed negotiations with Greece were "difficult to imagine".

Regardless of the outcome of the referendum, Greek banks are running critically low of cash and will need another injection of emergency funds from the European Central Bank.

Banks have been shut and capital controls in place since last Monday, after the European Central Bank declined to give Greece more emergency funding. Withdrawals at cash machines have been limited to €60 per day.

French President Francois Hollande and German Chancellor Angela Merkel are scheduled to meet in Paris on Monday, and a summit of Eurozone heads of state has been called for Tuesday.

Greece could be forced to re-introduce its own currency, the drachma, and in doing so would force the country to undergo a very difficult period of change. If the drachma were introduced again, it would likely be exchanged on a one-to-one basis with the country's Euros. Unfortunately, once the capital controls are lifted, however, the currency would likely experience a very sharp devaluation. Such an event unfolded in Argentina at the turn of the century when it defaulted on its public debt.

The sharp currency devaluation would fuel inflation. As prices for everyday goods and services increase, the country's economic woes would also likely increase as well. The country could potentially be put into recession, but ultimately it will recover.

Greece is too small to have much of an impact on global financial markets no matter what happens. But if the nation ultimately leaves the Eurozone it could set a dangerous precedent that may ultimately be followed by Spain, Italy and other European nations with weaker economies.

Markets worldwide will be sorting through fallout this week as the Greek default and potential ouster from the EU moves from speculation to reality.

Last week Puerto Rico an unincorporated U.S. territory in the Caribbean narrowly averted a debt default by negotiating a refinancing deal with bond holders. It buys time, but it doesn't necessarily fix the commonwealth's financial troubles. Puerto Rico's government owes creditors $72 billion and presides over an economy with a GDP of $103 billion. By comparison, total U.S. national debt comes in at $18.2 trillion against a GDP of only $17.4 trillion. That's right, our official debts as taxpayers exceed our entire economic output for a year. The U.S. has a far worse debt to GDP ratio than Puerto Rico and many of the world's problem countries.

U.S. investors would actually have much more to lose in a potential Puerto Rican default than in a Greek default because Puerto Rico's bonds are trading in the U.S. municipal bond market, while the vast majority of Greek debt is in the hands of the International Monetary Fund, the European Central Bank and Eurozone countries.

Chinese equities plunge.

Concurrently the Chinese stock market has plunged over the last ten days, from a peak on June 12 down 29 % on July 3; nearly ¥15 trillion yuan (over $2 trillion dollars) was moved out of the Shanghai Composite Index. China stocks fell sharply again on Thursday, fighting off fresh moves by regulators to restore confidence and raising questions about how much more firepower Beijing can bring to bear before a full-scale panic sets in.

Shanghai's benchmark share index crashed below 4,000 points for the first time since April - a key support level that analysts said had been seen as a line in the sand that Beijing had to defend, below which more conservative investors would start ejecting from their leveraged positions, widening the rout.

Chinese markets, which had risen as much as 110% from November to a peak in June, have collapsed at an incredibly rapid pace in since June 12, losing more than 20% in an extremely volatile market. The drop has wiped out nearly $3 trillion in market capitalization, more than the GDP of Brazil.

Shanghai's stock market meantime sank by more than 5% yet again on Friday, extending the last 3 weeks' slump to 30% and prompting the China Securities Regulatory Commission to say it's investigating short sellers and market manipulation, "based on reports of unusual movements" in stock and derivatives prices.

Yet despite recent financial turmoil, the gold price has not reacted. To me this smacks of manipulation but no matter what the reason, I think the current prices offer incredible value.

Some savvy Greeks began buying gold ahead of the bank runs and closures. The U.K.'s Royal Mint reported that in June Greek customers bought Sovereign gold coins at double the normal rate.

At times like this, it is imperative to hold assets such as gold, and the current crisis faced by the Greek people is a prime example of why an investment in physical precious metals is a wise thing to do.

Don't wait until it's too late. Make sure you have some physical gold.

TECHNICAL ANALYSIS

Gold prices remain under pressure as prices remain at the lower end of the trading range set since March.

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