Wg Weekly Gold Commentary 2013

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MAIN TOPICS

- Gold prices tumble.
- ECB provides funding for Greece.
- China increases reserves of gold.

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The gold price hit a five-year low last week, breaking through the low of $1,130.20 per ounce it hit in November to touch $1129.80 per ounce.

Gold prices plunge in Asian trading Monday.

Gold prices plunged below $1,100 an ounce in for the first time since March 2010, during the Asian session this morning, triggered by speculative selling in the Shanghai Gold Exchange, catching investors off guard.

The price of the yellow metal slid over 4% to as low as $1,086 an ounce in early trade before paring back some losses over the course of the day. It was down 2.3% at $1,107 at around 12:00 SG/HK time.

After Greece capitulated to the terms imposed by their European creditors and paved the way for additional funding, the focus of the financial markets turned back to the monetary policies of the major central banks.

The Greek Parliament voted to approve a $96 billion bailout plan that will impose strict austerity measures on the debt-ridden country, and give its European creditors significant financial oversight over Greece and places the country's most valuable assets in a 50 billion euro privatization fund that also will be overseen by European Union officials.

The European Central Bank (ECB) granted more emergency liquidity assistance for Greek banks after the country's parliament agreed on the reform measures and Eurozone nations approved short-term funding.

The action taken by the ECB will allow Greece's banks to reopen after more than two weeks of closure and capital controls. However, capital controls will remain in effect and individuals will still be restricted to withdrawing 60 euros a day.

At a press conference, ECB president, Mario Draghi, said. "We always acted on the assumption that Greece will remain a member of the euro area," Draghi said. "There was never a question."

The ECB "substantially accommodated" the Bank of Greece's request for funding, raising the limit by 900 million euros, Draghi said. The amount requested was accommodated in full, though "scaled to one week," he said. The ECB acted after euro-area finance ministers agreed in principle to extend a 7 billion-euro ($7.6 billion) bridge loan.

The short-term financing is needed so that Greece can meet a 3.5 billion-euro payment due to the European Central Bank on Monday, and keep the country afloat while Tsipras negotiates the details of a three-year bailout of as much as 86 billion euros. That aid package would come from the euro-area's permanent firewall fund, the European Stability Mechanism.

The bridge loan will come from the European Financial Stabilisation Mechanism, the European Union's rescue fund.

This is the country's third bailout in five years. Greece has absolutely no possibility of ever repaying its debts to the EU, and the EU, and I question this act of insanity. It seems that the financial elite have decided that the best and ONLY solution for debt-laden Greece is to loan more money.

In the real world, if you cannot repay your debt[s], your car is repossessed, your house undergoes foreclosure, you cannot get credit, your credit cards get cancelled, and you get black-listed. But, by going into debt and not being able to ever repay its loans Greece has qualified for an additional loan.

The only good thing about this is the Greek citizens who faced the possibility of having their money stolen by the banks have been given a reprieve. They have another chance to take their money out of their banks. And, those people who believe that things will return to normal deserve the losses coming their way.

The situation in Greece has not been resolved. It is as simple as that.

In her latest testimony to the Senate Banking Committee a day after appearing before the House Financial Services Committee, Federal Reserve Chairwoman Janet Yellen stated that the central bank is likely to raise short-term interest rates later this year.

Yellen said moving too soon could threaten the recovery while waiting too long would risk overheating the economy and accelerating inflation. “My own preference would be to be able to proceed to tighten in a prudent and gradual manner,” she said.

The Fed has held its benchmark federal-funds rate near zero since December 2008 to bolster the economy through the financial crisis, recession and uneven recovery. Most of the U.S. central bank’s policy makers have said they expect to start raising the rate this year if the economy continues to strengthen as they forecast, and many economists are of the opinion that September will be the likely time for this to happen. However, these same economists were looking for a rate to occur before June this year.

Yellen’s statements were perceived by market participants as hawkish and those traders that remain fixated on an interest rate hike and its impact on gold, prompted a sell-off on Comex.

Meanwhile the U.S dollar remained strong and sterling ended the week as the strongest major currencies boosted by hawkish comments from Bank of England (BoE) governor Mark Carney.

In a recent speech, Carney said that the British economy's strong momentum meant the decision on when to raise rates would come into sharper focus around the end of this year.

Sterling extended gains on Friday, touching a new 7-1/2 year high against a basket of other currencies.

Carney's speech puts the British central bank on track to follow the U.S. Federal Reserve by raising interest rates in the near future, after more than six years at rock-bottom levels amid the fallout of the global financial crisis.

"In my view, the decision as to when to start such a process of adjustment will likely come into sharper relief around the turn of this year," Carney said in a speech at Lincoln Cathedral in eastern England.

As widely expected, the Bank of Japan (BoJ) kept policies unchanged. The central bank will continue to expand the monetary base by JPY 80 trillion annually and interest rates will be held at current levels.

The Bank of Canada reduced the overnight rate by -25 bps to 0.5%, the lowest level since June 2010. It noted that headline inflation remained weak and was mainly pressured by low energy prices.

China up-dates official gold holdings.

And, the big news to hit the global gold market was the announcement about Chinese gold reserves.

China shocked the bullion market by declaring its official gold holdings for the first time in 6 years.

In a statement from the People’s Bank of China (PBoC), China boosted bullion assets to 53.31 million troy ounces, or about 1,658 metric tons. China last reported a figure of 1054 tons in April 2009.

With only 1658 tons of gold reserves this would put China in 5th position behind the US (8133 tons), Germany (3383 tons), Italy (2451 tons) and France (2435 tons). But, it is my belief that the US doesn’t hold anywhere as much as stated. In fact, I would be surprised if it actually holds a tenth of what they claim.

Frankly, I would be very surprised if the Chinese don’t have significantly more gold than these latest claims. Many gold analysts were expecting a much higher figure. Gold remains a large part of many central banks’ reserves, decades after they stopped using it to back paper money. Stockpiles of the metal help China to diversify its foreign-exchange holdings as the world’s second-largest economy seeks to raise the international profile of its own currency. The disclosure on gold reserves also assists in that goal.

The IMF will be considering the inclusion of the yuan under the special drawing rights in October. However, evidently the PBOC has more legwork to do if they want to be taken seriously. That could mean China may issue another update on its holdings around October.

The disconnect between the so-called “paper gold” market — dominated by options, futures, and unallocated ETFs — and the physical gold market continues to manifest itself.

Even as the price of gold denominated in U.S. has fallen, major mints around the world were reporting robust sales.

Strong sales figures reported from two of the world’s major mints – U.S Mint and Perth Mint - show that the importance of physical precious metals to weather major financial crises has not been forgotten despite the underperformance of the price in U.S. dollars.

Investors should not be deterred by this latest price plunge and take advantage of the current low bullion prices to accumulate more physical gold.

TECHNICAL ANALYSIS

Gold prices continue their bearish bias with prices falling below $1140/oz. Prices could test $1110/oz. before a rebound.

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