Wg | Weekly Gold Commentary | 2013

Rand Refinery (Pty) Ltd, Refinery Road, Industries West, Germiston, 1401, South Africa
P.O. Box 565, Germiston, 1400, South Africa, Tel: +27 (0) 11 418 9000
Fax: +27 (0) 11 418 9231 www.randrefinery.com Email: gold@gold.co.za

RAND REFINERY

MAIN TOPICS

- Gold prices extend recent gains.
- September Fed rate hike unlikely.
- Global stocks plummet.
- Commodities fall sharply.
- Fiat currencies tumble.

24 August 2015

Gold prices rebounded strongly last week hitting a six week high as safe-haven buying of the metal continued.

Gold prices rebound strongly as investors flee equities.

The price of the yellow metal gained more than 4% last week amid a global sell-off of equities and commodities. The spot price of gold settled at $1160.40 an ounce after hitting an intra-week high of $1168 an ounce.

The upward momentum in gold prices began the previous week when China devalued its currency, the yuan. And, last week the release of the minutes from the Federal Open Market Committee (FOMC) meeting left market watchers unsure about an interest rate rise in the US in September, adding to uncertainty caused by China's devaluation of the yuan. This in turn, as well as a number of other factors, including falling prices of other commodities, have led investors to turn to gold.

Last Wednesday, the Federal Reserve released its minutes of its July meeting, and they revealed that the economy is nearing but not quite ready for an interest-rate increase. The chance of a rate hike by the Fed in September is rapidly fading. And, while it seems that the markets might still be pricing in more than 50% chance of a December hike, some economists are already predicting that the Fed will delay any rate hikes till next year.

Global stock markets came under considerable selling pressure as they experienced their worst week of the year. The decline, coming on the heels of weaker-than-expected data in July, plus China's recent devaluation of the yuan, as well as a recent plunge in the stock market sent investors scrambling to the safety of gold.

The data from China showed its giant manufacturing sector slowing at the fastest pace since the depths of the financial crisis in 2009, confirming worries about its health that have been preying on economist's minds for months.

The latest rout was prompted by the release of the Caixin/Markit manufacturing index which showed activity in China's factory sector shrinking at its fastest pace in almost 6 1/2 years in August as domestic and export demand dwindled.

The preliminary version of the Caixin purchasing managers' index, formerly sponsored by HSBC Corp., fell to an unexpectedly low 47.1 points from July's 47.8 points. On a 100-point scale, numbers below 50 show a contraction.

The figure added to concerns about the outlook for China's cooling economy that has caused the Shanghai index to tumble despite a massive government intervention.

The Shanghai Stock Exchange Composite Index dropped 4% to below the 200-day moving average for the first time since July 2014. That brought losses for the week to 11%.

Japan's Nikkei average dropped almost 3% to six-week lows on Friday, 5.2% on the week, while the Kopsi index in South Korea fell 1.92%.

The Australian stock market, which is heavily loaded with companies reliant on Chinese growth, closed down 1.4%. The benchmark ASX 200 has lost 8.5% so far this month – the steepest monthly fall since the 2008 global financial crisis.

The Hang Seng index in Hong Kong was down 2.4% for a weekly loss of 7.4%.

It all left MSCI emerging markets index at its weakest in four years and the 45-country "All World" index down more than 3.2% on the week and heading for its worst of 2015 so far.

The major developed economy markets were increasingly being dragged into the sell-off.

The pan-European FTSEEuroFirst 300 closed down 3%, suffering its worst one day fall since October of last year. In London, the FTSE 100 closed down 180 points, or 2.8%, to 6,187 – the lowest it has been this year and the biggest one-day fall since October 2014. The UK index closed down for nine straight sessions – its longest losing streak since 2011. The FTSE 100 has fallen by 5.6% this week, which equates to around £93bn ($146bn) being wiped off the value of the UK's largest listed companies. Germany's DAX finished just shy of 3% while the French CAC plunged 3.2%.

US stocks plummeted last Friday on fears of a global economic slowdown spurred by a decelerating Chinese economy. The Dow Jones Industrial Average (DJIA) suffered its worst losses of the year. The benchmark index closed down 531 points, or 3.1%, to 16,460 – the S&P 500 lost 3.2% to 1,971 and the Nasdaq closed down 3.5% to 4,706.

The DJIA entered "correction" territory for the first time in four years, falling more than 10% from its all-time high of 18,312.39 on May 19. The last time the blue-chip index posted a more than 500-point drop was Aug. 10, 2011. The Dow's more than 1,000-point drop this week was the largest weekly drop since the week ended Oct. 10, 2008.

Friday's global stock market sell-off began with China's posting of numbers that showed factory production in the world's second-largest economy shrank in August at its fastest rate in more than six years. The numbers fuel concerns that China's sudden slowing will have far-reaching consequences around the world.

At the same time, crude oil prices resumed their downward trend. US WTI crude was at a more than 6-year low, on track for its eighth straight weekly decline as it dropped over 2.5%, trading around $40.20. The price of Brent dipped down to $45.40 in afternoon trade. Meanwhile, the copper price continued to fall. The red metal fell on Friday to a six year low. Both oil and copper are proxies for economic growth and the plunge in prices suggests that the global economy is very fragile. The prices of other base metals including aluminium, lead, zinc and nickel also fell.

Global fiat currencies under pressure.

Among currencies, it was a similar story. The Australian dollar, considered a liquid proxy for China demand, slid to $0.7285 at one point and was last trading at $0.7335, down 0.2% for the day.

After a brief setback, the EUR/USD surged and took out 1.1215 resistance level, pushed to a two-month high by those looking to get out of battered Asian currencies and China proxies such as the Aussie and Hong Kong dollars.

The Malaysian ringgit hit a 17-year low and South Korea's won fell again to take its losses to 1.8% against the dollar this week.

The South Africa's rand fell nearly 1% against the dollar on Thursday, breaching 13.00 for the first time in 13 years. The rand touched a session low of 13.0050 to the greenback, its weakest since December 2001 according to Thomson Reuters data.

The weaker rand has pushed the domestic price of gold close to its all-time high of three years ago.

Given that China is the world's second-largest oil consumer, the slowdown in the country has also put pressure on oil. The Chinese slowdown continues to dominate the oil market, causing persistent concerns over a serious decline of Chinese oil demand in the second half of the year.

As I have mentioned on many occasions it is now becoming evident that the monetary expansion since the recession has done little to stimulate economic growth. All it has done is to artificially prop up the prices of global equities and bonds. The bubble created by the actions of central bankers is now beginning to burst.

The economic and financial turmoil rumbling through the world economy is only going to deteriorate as concerns about the world economy intensify. While stocks continue to fall, gold prices will rise.

With gold about to enter its seasonal bullish period and a myriad of problems erupting across the U.S. and global markets, now is the time to play it safe with your portfolio. Make sure you have some physical gold and have it stored out of the banking system.

TECHNICAL ANALYSIS

upward momentum in gold prices continues. The price has now made a decisive break above the 50 day MA and is set to push higher. I expect to see prices re-test $1180/oz. in the medium term.

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