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

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MAIN TOPICS

- Gold prices extend recent gains.
- Turmoil on global stock markets.
- Physical gold continues to move East.

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The global financial markets were in turmoil last week as equities and commodities experienced another week of a roller coaster ride.

Gold prices soar as global equities tumble.

At the beginning of last week, as equities on all the major bourses plummeted, the price of gold soared as investors scurried into safe-haven investments such as gold. On Tuesday as the sell-off in equities intensified the price of spot gold briefly traded at $1170 an ounce.

Last Monday saw Chinese stocks tumble in what was the worst trading day since the start of the global financial crisis eight years ago. In what was known as 'Black Monday' the Shanghai index crashed more than 8%, effectively shedding all its previous gains for the year, and causing panic on the global financial markets.

US stocks suffered their worst week since 2011 last week, and Monday morning the Dow Jones Industrial Average (DJIA) tumbled to as low as 15370, when the stock market opened 1,000 points down. Monday's closing point loss for the Dow was 588 points—or 3.6%, to 15,871, its 8th worse one-day point loss in history and worst daily point decline since Aug 8, 2011.

Gold, on the other hand moved higher. Being a hedge against currency and stock market weakness, the price of increased by around 4% over the past week. Despite the rebound in gold prices, it still remains extremely oversold. Concerns over a slow-down in Chinese growth as well as a general global economic slowdown have been cited by most main-stream media as the cause of the selling, while the notion of a rate hike may be taking a toll on markets as well.

According to recent data, the Chinese economy is slowing much more than many had expected considering its double digit growth rates in the mid-2000s. This slowing growth in the world's second largest economy is likely to have a significant impact on many emerging markets.

While people want to blame it on China, as far as I am concerned, China is only part of the problem. The main problem is that equities have been artificially propped up for years now on the backs of quantitative easing and zero interest rates. And, while things may have been good for investors of shares in recent years, things are going to change. It is simply impossible to continue to prop up entire global stock markets with central bank money printing and constant intervention.

Nevertheless, government intervention seems to be an integral part of markets nowadays. On Tuesday, the Peoples Bank of China (PBoC) cut interest rates for the fifth time since November in an effort to boost its slowing economy. European and U.S. stock markets bounced back. The Dow, Nasdaq and S&P 500 stock index futures were all up over 3%. European stocks rose sharply. France's CAC 40 index added 3.5% and Germany's DAX index was up 3.1%.

The PBoC said the rate for a one-year loan will be cut by a 0.25% point to 4.6% and the one-year rate for deposits will fall to 1.75%. The central bank also lowered the amount of cash reserves Chinese banks are required to hold.

The announcement was made after the close of Chinese and other Asian markets, which were volatile Tuesday as Chinese stocks plunged again and Tokyo markets also fell sharply after earlier rebounding.

Meanwhile, several sources reported that the Fed spent $23 Billion in 3 days trying to prop up stock prices.

On Monday, August 24th, the Fed injected $18.54 billion from a "reverse repo fund" filled with cash accumulated at the end of QE3.

On Monday & Tuesday, primary dealers failed to move stocks up, because overhead resistance was too strong, and a tactical retreat left the DOW down by a combined 793 points.

On Wednesday, the Fed added $4.446 billion, and combined with a mildly positive durable goods report, the primary dealers succeeded in pushing the DOW upward by an astounding 620 points.

Despite the severity of Black Monday, markets around the world have already rebounced strongly. Wall Street closed higher last Friday, with the Dow, S&P 500 and Nasdaq all posting gains of 1% or more for the week.

Asian shares also ended Friday higher, with the MSCI Asia-Pacific Index close to erasing all the losses from earlier in the week.

Meanwhile, the annual Economic Policy Symposium in Jackson Hole, Wyoming, which brings together academic experts, financial market participants and many of the world's central bankers, took place.

On Friday, the Federal Reserve hinted at a September interest rate hike even while several U.S. central bank officials acknowledged that turmoil in financial markets, if prolonged, could delay the first policy tightening in nearly a decade.

Some top policymakers, including Fed Vice Chairman Stanley Fischer, said recent volatility in global markets could quickly ease and possibly pave the way for the U.S. rate hike, for which investors, governments and central banks around the world are bracing.

With a key policy meeting set for Sept. 16-17, at least five Fed officials spoke publicly about whether increasing the Fed's benchmark overnight lending rate was too risky amid an economic slowdown in China, a rising U.S. dollar and falling commodity prices.

Fischer together with other Fed officials, acknowledged that the global equities sell-off that began last week would influence the timing of a rate hike, which until only a couple of weeks ago seemed increasingly likely to occur in September.

New York Federal Reserve chief William Dudley felt that a rate hike in September was unlikely to happen.

“From my perspective, at this moment, the decision to begin the normalization process at the September FOMC meeting seems less compelling to me than it was a few weeks ago,” he said. “Let’s see how the data unfold before we make any statements about exactly when that might occur.”

As the uncertainty surrounding interest rates in the U.S. as well as concerns about the global financial system takes its toll on investor sentiment, demand for physical gold should increase.

Demand for physical gold from China and India to remain strong.

Despite the on-going shenanigans of the bullion banks, using leveraged paper contracts on Comex, physical demand for gold remains very robust, and the flow of gold from West to East continues unabated.

China's net gold imports via Hong Kong rebounded in July from a 10-month low in June. According to data emailed to Reuters by the Hong Kong Census and Statistics Department, net gold imports from Hong Kong rose to 55.063 tons last month from 37.146 tons in June, Total gold imports rose by a third to 63.765 tons. However, Hong Kong is not the only conduit for gold going into China as Chinese imports also go through Shanghai and Beijing.

If the offtake from Shanghai is included, then demand in China is being grossly understated by those who focus solely on the Hong Kong import data. According to available data demand at week 32 for China already stands at 1,585 tons.

Meanwhile, Reuters recently published an article in the Times of India suggesting that gold demand in India might reach 950 tons this year as lower prices spur buying during the peak festival season and for weddings, the world's biggest gold refiner, Valcambi, said.

Valcambi chief executive Michael Mesaric said gold demand would be strong this year. "It could be between 900 tonnes to 950 tons," he said on the side lines of the International Gold Convention in the city of Panaji in Goa state.

Demand for gold jewellery is usually robust in the final quarter as India celebrates festivals such as Diwali and Dussehra, when buying the metal is considered auspicious.

"All this should boost demand," said Alistair Hewitt, the World Gold Council's (WGC) market intelligence director.

I expect to see more volatility in the global financial markets, and believe that gold will resume its long-term uptrend after a multi-year pullback.

For the long-term investor the current low prices offer an opportune time to buy physical gold. And, once the upward momentum begins, prices will move significantly higher.

TECHNICAL ANALYSIS

Gold prices seem to have posted a bottom in August. I expect to see prices continue to resume the upward trend after a short period of consolidation. However, there appears to be some overhead resistance at around $1180/oz.

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