Wg Weekly Gold Commentary 2013

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MAIN TOPICS

- Gold prices rise in August.
- U.S. unemployment at 7 year low.
- ECB maintains rates.
- IMF cuts global growth.

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Gold prices began on a positive note last week, but prices gradually faded towards the end of the week to settle as the volatility in global stocks and currencies continued.

After the price of the yellow traded slightly higher on Monday and Tuesday, even after an unexpectedly hawkish Federal Reserve official kept the possibility of an interest-rate hike on the table in a speech over the weekend, prices drifted lower in the following three sessions, to settle the week at $1122.30 an ounce.

Gold prices advance in August.

Despite concerns about the Fed tightening, gold recorded its best month this year, gaining around, gaining about 3.4% for August for its first advance since May.

During the same period, global stocks suffered losses and the S&P 500 experienced its worst monthly performance since 2012, while the Dow had its worst month since May 2010.

Both the S&P and the Dow had five days of gains or losses of more than 2% in August, making it the most volatile month in nearly four years. Each major index ended the month down more than 6%.

Traders still remain fixated on a potential interest rate hike from the U.S Federal Reserve. Recently, when the Fed's vice chairman, Stanley Fischer, said in a speech at a conference at Jackson Hole, that the central bank's 2% inflation target ultimately would be reached and that the time to raise interest rates is sooner rather than later, some traders still believe that a September rate hike may be possible.

Despite the persistence of ambiguous economic data as well as rhetoric from central bankers, and barring further turmoil in the financial markets, many market participants believe that the Fed is still on schedule to hike interest rate this year. While only 30% believe such a move will occur in September, many think the chances for a hike in October seem rather strong.

As I have stated before, I am amazed at the attention this potential rate hike has been given. Whether it comes in October, November, December or next year, it will be a very small increase and it will not have a major impact on the fundamentals which are going to drive the markets.

The U.S. unemployment rate hit 5.1%, the lowest in 7 years but hiring slowed. The unemployment rate fell from 5.3% in July to its lowest point since 2008 and is now at a level Fed officials say is consistent with a healthy economy. But employers added a moderate 173,000 jobs in August, the fewest in five months.

The Labour Department report, issued on Friday, was closely watched because it will be the last snapshot of the job market before the Fed meets in two weeks. And overall, it painted a picture of an economy growing at a modest but steady pace seven years after the Great Recession.

People are also waiting to see what's going on in China. That and the interest rate decision will be the most important factors for the gold price over the next days and weeks.

As expected, the European Central Bank did not ease policy when its governing council met last week. However, the ECB underlined its determination to take further measures, if necessary, to get inflation, currently just 0.2%, back to the goal of nearly 2%. Speaking at the press conference after the meeting, Mario Draghi, the ECB's president, stressed the council's willingness, readiness and capacity to act.

Revised forecasts made it clear why the ECB may have to step up its quantitative-easing programme, announced in January and launched in March. Three months ago, central-bank staff envisaged GDP growing by 1.5% this year, 1.9% in 2016 and 2.0% in 2017. These forecasts have been lowered to 1.4%, 1.7% and 1.8% respectively. Mr Draghi said that the downward revisions were mainly because external demand is now expected to be weaker.

Inflation is also set to be lower than previously forecast. In June, staff projections showed consumer prices rising by 0.3% in 2015, 1.5% in 2016 and 1.8% in 2017. The latest forecasts are for inflation of only 0.1% this year, rising to 1.1% in 2016 and 1.7% in 2017. These downward revisions have occurred mainly owing to lower than expected oil prices.

Even these lower forecasts may turn out to be over-optimistic since the cut-off points for data were between August 12th and 21st. That meant they did not reflect the panic in financial markets over a Chinese slowdown late last month.

This means further easing from the ECB seems likely.

Today's global economy is so utterly dependent on the latest move by a major central bank, or even the latest utterance of any semi-important monetary official, it is simply ridiculous. There are no free markets anymore. It seems that real fundamental driving forces no longer apply and only hints about the next big monetary policy decision are of more importance. This obsession with "monetary policy" which tends to mislead people into what is really going on in the global economies will have no relevance once the financial system collapses. No doubt, when it happens, main-stream media will put the blame on China or Russia.

Despite central bank action, many economies are slipping into recession.

It is very clear that the massive money printing we have seen from central banks over the years has done nothing to stimulate economies. Global economies are under pressure and several major world economies are slipping into recession.

It is obvious that China is in a major economic downturn. Stocks there have been plummeting, despite desperate attempts by the government to rig the markets.

China is the world's largest commodity consumer. In the first quarter, its economy grew at its slowest rate in 25 years. And there are signs that things could get much worse. Last month, China's manufacturing output index had its lowest reading since 2009.

Demand for commodities in China including oil, copper, aluminium, iron ore, and coal is down substantially.

In Canada, the economy contracted in the second quarter by 0.8% after going down by 0.5% in the first quarter. So if you define a recession as two consecutive quarters of negative growth, then Canada officially entered a recession on Monday.

Brazil is in its worst economic downturn since the 2008 financial crisis.

The country's stock exchange has fallen 26% over the past year. The Brazilian real has plummeted 36% against the US dollar in the past year, too.

Australia could be headed for its first recession in twenty-five years. Last quarter, Australia's economy barely grew. Its GDP growth was just 0.2%...less than half of what economists expected. And the Australian dollar has plummeted 22% against the USD since last September.

Australia is facing the same problems as Canada and Brazil…low demand for commodities. Australia is the world's largest iron exporter. It's also the world's biggest coal exporter. The price of coal is down 40% since 2011.

In South Africa, the Rand has plummeted to new low against the major currencies. South Africa is facing numerous serious challenges now. It has one of the most corrupt governments in the world, unemployment is ridiculously high, crime is out of control, and labour unions continue to cripple the economy. With a global slow down and a dysfunctional government, the Rand is bound to continue its downward spiral against the major currencies.

On Wednesday, the International Monetary Fund (IMF) said it may make a big cut to its worldwide economic growth outlook. The IMF is worried about China's slowing economy and crashing stock market.

It is apparent that the last six years of zero bound interest rates combined with unprecedented money printing, has done nothing to stimulate economies. It has merely propped up global stock and bond markets while destroying the wealth of hard working individuals whose savings have been destroyed.

There in now talk of a financial meltdown beginning this month. While many of these predictions are based on Biblical interpretations which I ignore, some are based on the unfolding market events which suggest that something big is indeed unfolding.

I suppose we will just have to wait and see. But, in the meantime I suggest you add physical gold to your investment portfolios.

TECHNICAL ANALYSIS

The recent upside momentum in gold prices has met some resistance. I expect to see some consolidation at around $1100/oz. before the next move upwards.

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