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 drift lower.
- World bank warns of global slowdown.
- Sales of gold coins soar.

14 September 2015

After a fairly flat start to the week, gold prices drifted lower last week as many traders remain neutral as they await the results of a two-day Federal Reserve meeting policy on September 16.

Gold prices drift lower ahead of U.S Fed meeting.

The price of spot gold began last week at $1123 an ounce, then fell below $1100 an ounce on Wednesday, hitting a four-week low. The price rebounded on Thursday but then dropped again on Friday to settle the week at $1108.70 per ounce

Despite numerous reports showing that an increase in U.S interest rates are not necessarily bad for gold, many traders don't agree and believe that any hike in interest rates might not be great for gold in the short term. And, as they focus on what the Fed may or may not do, they ignore the strong fundamentals of the gold market.

Apart from the Fed policy meeting there seems to be a degree of concern amongst investors and traders regarding a slowing global economy, especially in China.

The upcoming Federal Reserve meeting is going to be one of the most important one in years. That's because Fed policymakers will have to decide whether to raise short-term interest rates for the first time since June 29, 2006.

As I have mentioned in previous articles, I maintain that a September rate hike by the Fed is highly unlikely. In a fragile global economy, any rate hike could unleash more market turmoil which is something the Fed will probably not want.

While, the last employment report revealed a lower unemployment number, there are still questions about the perceived strengthening of the labour market.

According to the U.S Department of Labour, non-farm payrolls increased by 173,000 workers in August, while the unemployment rate fell to 5.1%, the lowest since April 2008.

Although the increase in payrolls was lower than expected, some analysts believe that the upward revisions to previous months and the lowest unemployment rate in about seven years may offer little cause for the Fed to delay raising rates for the first time in nearly a decade at its two-day policy meeting beginning Sept. 16.

As the Federal Reserve prepares to meet this week (Sept. 16-17), numerous economists and world bodies have come out of the woodwork to warn the U.S. central bank against lifting interest rates prematurely.

Everyone from the IMF to the OECD has sent cautionary messages to global central banks to keep rates low, citing growing sluggishness in the world economy.

Now the World Bank's chief economist, Kaushik Basu, is predicting "panic and turmoil" in emerging markets if the Fed raises rates in September.

"I don't think the Fed lift-off itself is going to create a major crisis but it will cause some immediate turbulence," Basutold the Financial Times of London. "It is the compounding effect of the last two weeks of bad news with that [China devaluation]. … In the middle of this it is going to cause some panic and turmoil.

"The world economy is looking so troubled that if the U.S. goes in for a very quick move in the middle of this I feel it is going to affect countries quite badly."

"Slower" growth everywhere**:** With emerging-market economies such as China and Brazil showing the most outward signs of decline, Basu said his bank's 2.8% growth forecast is now vulnerable.

"There is a concern in emerging economies all around in case China takes a hit," Basu said. "This is the problem right now in the world. … Overall we are going to get into a slower global growth phase.

"All this put together and what has happened over the past two weeks with the Chinese markets leads one to believe the scenario is looking worse than it did even in June."

So, the Fed remains in a very precarious position given its ability to spark a global conflagration. My guess is that they will not raise rates.

A new development in the gold market has been India's attempt to sell gold-backed bonds and allowing banks to tap idle jewellery and bars held by households and temples to cut reliance on imports.

Prime Minister Narendra Modi's cabinet approved the gold monetization plan and sale of sovereign bonds by the Reserve Bank of India.

An estimated 20,000 metric tons or more of bullion -- more than double holdings in the U.S. -- is stashed in India's homes and temples, according to the government. Modi is looking for a long-term solution to curb gold imports after the current-account deficit widened to a record in 2013 and the rupee slumped to an all-time low.

The monetization plan will allow Indians to deposit their jewellery or bars with banks and earn interest, while the banks will be free to sell the gold to jewellers, thereby boosting supply. The deposits can be for a period of one year to 15 years with the interest on short-term commitments to be decided by the banks and those on long-term deposits by the government in consultation with the central bank.

The plan may fail to draw people in large numbers because of Indians' inherent love for holding physical gold and low interest rates likely to be offered by the banks. Inadequate banking facilities in rural India, which makes up for 60 percent of physical gold demand, may also scupper the plan, according to the All India Gems & Jewellery Trade Federation.

"The schemes will succeed only if the banks offer interest rates of about 2.5 percent and do not require customers to declare source of deposited gold below a certain limit,"Bachhraj Bamalwa, director of the federation, said by phone from Kolkata. "At the end of the day, Indians' love for physical gold and investment sentiment in the rural areas, which do not believe in such investment products, will determine the success of the plans."

It appears that South Africa's gold mines, the deepest and among the oldest in the world, are in big trouble.

In an article published by Bloomberg, the four largest producers in the country are losing money on about 35 percent of production at current prices. At the same time, higher costs are cutting into profits as electricity bills climb to a record. Workers are also pushing for wage increases, with some threatening to strike if salaries aren't doubled.

South African output slid at the fastest pace among the 10 biggest-producing countries in the past decade. Mine supply halved in the period to about 145 metric tons last year, according to the World Bureau of Metal Statistics.

The metal has slumped 40 percent from its 2011 record to about $1,122 an ounce. At that price, half of mines owned by the nation's top producers are losing money, data compiled from second-quarter financial reports show.

Meanwhile on September 11, Reuters reported that gold coin sales in the United States and Europe have surged in the third quarter, with sales from the U.S. Mint reaching levels not seen since the price crash of 2013, as low prices and a series of market shocks fuel retail buying.

Sales of gold bullion coins soar.

Sales of gold American Eagles have nearly trebled year on year in the third quarter with most of September still to go, reaching 322,000 ounces. That's the highest of any quarter since the gold crash of 2013.

The surge in retail buying in 2013 came on the back of a dramatic reversal in a decade-long rally in gold prices, with buyers scrambling for bargains after a $200 plunge in gold prices in just three days.

The 6 percent drop in prices this year has been less dramatic, but has been accompanied by a highly turbulent period in stock markets, and fears over the stability of the euro zone.

Concerns over slowing Chinese growth flared after the central bank devalued the yuan, knocking Chinese stocks and helping put world shares on track for their biggest quarterly drop in four years. European assets also came under pressure in July from fears that Greece was set to crash out of the euro.

The Austrian Mint, which produces gold and silver Philharmonic coins, said sales of its gold coins more than trebled year on year in July and August to 321,500 ounces, citing lower prices, ultra-low interest rates, stock market volatility and fears of a 'Grexit'.

The UK's Royal Mint said it has seen significant increases in Sovereign and Britannia coin sales throughout the past three months, particularly in July. Sales are more than 50 percent higher than during the second quarter, it said.

Degussa, a leading German coin and bar dealer with sales of 700 million euros in the first half of 2015, said its gold sales this quarter have been 30 percent higher year on year.
"We had a fantastic month in July with large coin and bar sales," Chief Executive Wolfgang Wrzesnioch-Rossbach said. "August was quieter, but still saw 20-30 percent higher demand compared to last year."

Gold moving through the Exchange this August has totalled a phenomenal 301.96 tons bringing the year to date total to 1,718.2 tons, some 219 tons more at the same time of year than in 2013 when China consumed a record amount of gold.

If SGE withdrawals continue at the average rate recorded so far this year, full year deliveries though the Exchange could reach around 2,580 tons – and this is certainly not an impossibility given that demand during the final quarter of the year usually runs strong. This figure is equivalent on its own to around 80% of global annual new mined supply at present.

Gold remains the ultimate insurance against the destructive forces of policy decisions of central bankers.

Now, is the time to consider an allocation in physical gold. This precious metal has been considered a reliable store of wealth and value for thousands of years.

TECHNICAL ANALYSIS

The recent upward momentum in gold prices has been thwarted and it looks as if prices may test the support level at $1100/oz. and trade sideways before the next move up.

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