



## Gold Review

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### **Will the recent rise in Gold be capped or can the trend higher be sustained?**

Over the course of the last couple of weeks Gold's trend has been up. It has traded in an orderly manner from the lows of 320 in March to its current level of 342. The characteristics of the move have been quite different from its recent trading history. This suggests the reasons for buying Gold may have shifted away from traditional geopolitical uncertainty and financial shocks to perhaps something of more substance.

What have been the main reasons behind the move and can it be sustained?

Traditionally we go to Gold in times uncertainty. The reason for the recent spectacular moves lay testimony to this. However, with the global economies reeling after these shocks we question the need to hold safe haven assets. So why is Gold up 7% over the last month when the economic and political environments are relatively stable?

The main reason behind the move looks to be a change in investor sentiment towards the USD. The USD has been in decline for since October 2000. However, only over the last month its depreciation has accelerated and it is worth commenting on this move and its relevance to Gold.

Why has the USD weakened and why has the Federal Reserve adopted a weak monetary policy?

Two main reasons:

- 1 To stimulate domestic growth via a low interest rate policy

- 2 Allowing the flood of USD onto the global exchange market to help depreciate the currency

Why? To increase the comparative advantage the US has with its trading partners. Over the last six months the USD has depreciated by 27%. This depreciation translates to an important edge it will have when competing for product contracts with other countries. The

US economy can now produce at low cost, products that it can sell more competitively than other countries. Sounds familiar, it is in fact a revival and revamp of one of the oldest schools of thought in economics: "Mercantilism" which is often referred to as "the political economy of state building". The key result is to have trade exports over imports or a positive balance of trade.

This policy succeeded in the early 1990s for the US and looks to be well entrenched into the physics of the Federal Reserve Governors. Given this policy the flood of USD's can contribute, given static supply demand relationships to artificially inflated values for some commodities, which are based in USD's. Perhaps this is why we are seeing the Gold price higher.

As Gold is trading 7% higher than last month and with no geopolitical/ financial crisis on the table we have to attribute the move primarily to the weakness in the USD. Therefore can this move be sustained? The US policy will remain intact until economics prove otherwise. We can assume that the direction for the economy will dictate the direction of the USD and hence Gold.

Briefly, the outlook for the US economy remains mixed to better. Recent data suggests that we have been trying to find a base for the last six months with an aggregate of the data suggesting positive economic life. A bounce from the lows is close as evidenced by renewed investor confidence in US equities. Therefore, we anticipate a break on the depreciation of the USD from its current levels, which we suspect will momentarily put a high in place for Gold around the 345 level.

### **Outlook:**

We expect the price of Gold to remain in its current trend. However, after such a good rise we would expect the market to take a breather. In addition as can be seen for the Chart, 345 looks to be an area of major resistance and as momentum indicators are currently on their highs we would anticipate a correction.



**Technicals:**

**Gold Spot Deferred**

	<u>Initial</u>	<u>Secondary</u>	<u>Primary</u>
Support:	332	320	305
Resistance	345	350	360



Please do not hesitate to call concerning any of the above. I can be reached on direct call 1300 660 734.

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