



## Gold Review

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3 April 2009

### Gold IMF Sales – at last....how will these affect the price of Gold?

It's been a long time coming, however, last night G20 supported the proposed move by the IMF to sell some of its Gold reserves. As this is a significant event it has provided us with an opportunity to revisit the market direction and our views for Gold.

The IMF holds 3200 tonnes of the precious metal and it ranks behind the US and Germany as the third largest holder. Over the last year the market has been speckled with news of a proposed sale in order to fund special relief projects in the emerging markets. The holding is 403 tonnes and essentially falls outside the official IMF holding which is based off member country contributions.... which cannot be sold. The surplus tonnage was a result of a swap for interest payments concluded in 2000. Although, the majority of members have previously agreed to the sale it was always the US that thwarted any attempts. The US hold the balance of power in the council and further have to seek congressional support in order to enable any sale to proceed. It looks like with the current Global Financial Crisis (GFC) that "the shoe is definitely on the other foot" President Obama in supporting the G20 initiative and in doing so is also sanctioning the sale of the IMF gold. **So how will this sale affect the market?**

The last time a Central Bank (CB) involved itself in a concerted effort to sell its Gold holdings was in 1999, when the former Chancellor of the Exchequer, Gordon Brown told the BoE to sell 415 tonnes. At the time the price of Gold was US285oz. The Gold holding was auctioned in three tranches with the best bidder taking home the Gold. None went through the market, however, the perception of further CB sales kept the market depressed for some time or until the Washington Gold accords came into play. Granted the IMF Gold sale is slightly different, we feel that like the BoE sales none will go through the market and that China will probably have first "dibs" on it. However, we feel that the consequences that caused the decision to make the sale will have a chain reaction that could see the price of Gold temporarily under pressure. Why?

Taking a step back from the market the G20 meeting

after months of "jaw boning" finally came up with a viable package that all members are happy with. A "package" that will help underpin initiatives taken on by Governments to help stimulate their economies. This additional support will provided a global message to investors around the world that the group can work together to help provide a plan for a recovery; a concerted effort that would compliment stimuli. So does this perception mean that we are out of "hot water" and on the way to recovery? Well it helps add weight to the belief that we are on the road and helps soften the blow until liquidity and confidence comes back to the market. This means that the crisis trades, for the time being will go on hold and probably some will slowly be unwound.

### So how will this affect Gold?

Coming back to the gold market we can see that investors have flocked to Gold as a safe haven, nothing new here. Putting this into perspective the SPDR Gold Trust, the world's largest Gold ETF, holds 1127 tonnes of Gold...basically 1/3 the size of the IMF holding. The interesting aspect to this is the mobility of the investors when they moved into the Trust, will this be the same if they decide to exit. If the perception holds in the market that a solution exists and that the G20 have and will continue to work together then the safe haven trade will start to be unwound. In doing this it could unleash potential for Gold sales of the same scale as the IMF, however, this time it has to go through the market. Adding weight to these sales is the already pathetic current state of demand for physical purchases which apart from ETF demand has dried up to a trickle. Indian imports which use to account for over 700 tonnes per year are virtually none existent and demand for jewelry has evaporated. All this suggest that the market for Gold is setting itself up for a tumble. **Is this the start of a bearish move or just a correction?**

At the moment if the market breaks recognizable support at US890 we feel that it will have a short sharp correction back to US820. However, given the current state of play we feel that this is just a correction in an overall bull market. The main reason for this is that we feel that the USD will continue to weaken and with roughly 3% of global GDP, 350 to 450 pts of monetary easing and the latest initiatives from the IMF thrown at the GFC that a bout of inflation is on the cards. After all, it is far easier to control an inflationary environment

over a deflationary environment just ask the Japanese? So if fundamentally we can create a case for a fall what does the technical picture divulge.

**What does the Technical picture look like?**

By looking at the chart below we can see that momentum indicators are looking soft and that we are trading into critical support. If this support US900-US890 is broken on a daily basis it is correcting the move from US690 to US1000 which suggests that a deeper correction to US820 is on the way.



So in conclusion we feel that a correction is on the cards if the market sees that a concerted effort is close to hand which it is. Obviously, we are not out of the woods concerning the GFC, as time is the only panacea here however, if the perception is that there is light at the end of the tunnel the chances are that investors will try and grab it, scrambling out of Gold and back into equities. If US900-US890 goes then we see the market trading back to US820 and from here we would commence our buy program. Our analysis of the situation is wrong if we get a break above US932.

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