



## Gold Review

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### Gold Review – Into consolidation mode

The Gold market has for the last couple of months been knocking at US1000. Each time it trades close to it fails to push through. In this report we look at the reasons why it has failed and suggest that it may be some time before it can eventually crack US1000 again.

Taking a back seat view, Gold this year has not performed well... we started 2009 at US880 and now are trading at US940 with a high of US1005. When compared to the other commodities it is lagging well behind.

What are the main reasons for the Gold price stalling?

- 1 USD strengthening
- 2 Hot money moving to Equities from Gold Trusts
- 3 Risk aversion and safe haven trades abating
- 4 Chances of inflation reducing

### USD Strengthening

The USD as we are all fully aware has been weakening for some time and in many of our Reports we mentioned that if the USD Index were to break back above US80.25 then this could signal a decent correction. At the moment we are trading at US81.00 so can anticipate that dips will be well supported. The range is confirmed at being US79.40 on the down side and US84.00 on the top side. Gold is priced in USD so naturally, if the USD firms then this will act as a break on Gold ability to trade higher.



### Hot money moving to Equities

During the first part of the year we saw increased activity in the Gold Trusts in particularly the SPDR. In fact the holding in the SPDR reached then same level as the entire holding

for the Chinese Reserve bank. It is interesting to note the activity of the Funds remains robust as it is certainly a market that will enjoy significant growth in the future as it is easily accessed. A Gold trust is transparent, traded on recognized equity markets and provides easy access for investors to enter and exit gold positions. This is one of the reasons why Gold is failing as investors in these trust now hold significant power on the direction of the commodity. If the Equities markets continue to run then people will switch holding in Gold to Equities and the weight of this switch we see pressure on the Gold price. We have seen instances where the market has had to absorb close to 7 tonnes in one day.

### Risk aversion and safe haven trades abating

One of the main reasons investors went to Gold was the chances of the financial contagion spreading. So far it looks to be contained and as a result the flight to quality story is just not with us. In addition, to this we are starting to see a few green shoots of economic recovery coming from the US and Europe which is placing confidence in the economies. Taking this on board together with China's economy looking to steam ahead with her support for commodity prices we see good profits for those holding sound resources equities. As the market confidence grows the need to hold gold is not as attractive and as result people are looking to exit aversion/safe haven trades for other investments and so this will place additional pressure on the market as the switch occurs.

### Chances of inflation reducing

This is one interesting feature to the Gold market which is worth focusing on. In the first quarter of the year we anticipated that we would see inflationary pressures as the market looked to absorb all the stimulus packages. Investors would fly to the Gold market as an inflation hedge. However, one thing we failed to counter was the actual strength of the commodity markets as a result of the stockpiling from China and the weakness in the USD. The apparent strength has had an interesting effect on the market in that economies are finding it difficult to absorb the higher cost of inputs. This is disinflationary in its self. After all we do not see any wage growth at the moment and with unemployment growing we are not seeing any pressure on prices. This is having the desired effect of placating any inflationary pressure. So in realty the "inflation genie" has been firmly placed back in the bottle.

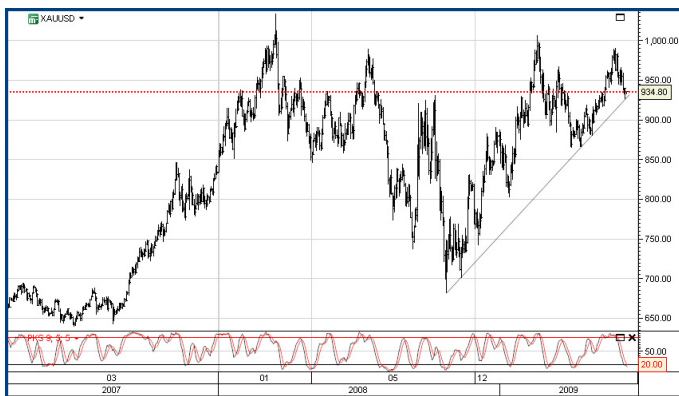
### How will this affect the Gold market?

As we are fully aware we invest in Gold when we have geopolitical, financial or inflationary pressures or when the

value of the USD is depreciating. At the moment we feel that all the reasons to invest in Gold have evaporated from the market and feel that **the immediate direction for Gold is down**. However, we are viewing this as just a correction at the moment and we have not pulled the rug from our long term views. At the moment given the current geopolitical and financial picture the only reason for Gold to trade higher is from the inflation and geopolitical front however, as mentioned this is not an issue at the moment. However keep an open mind although the pressures above have abated for the time being we are far from out of the woods and as the market is in balance in terms of supply and demand any rush to the metal will firmly tip the balance into a shortage.

## Technically

Technically the market appears to be in consolidation mode. However, it is knocking at major support at US925. If this area is broken then we can suggest that Gold will start to fall to the important area of support at US900. Apart from this keep an eye on US865 as if this breaks then we will go back to the drawing boards in terms of our bullish outlook. The consolidation mode remains with us until US965 is broken on the topside.



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Happy Trading  
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