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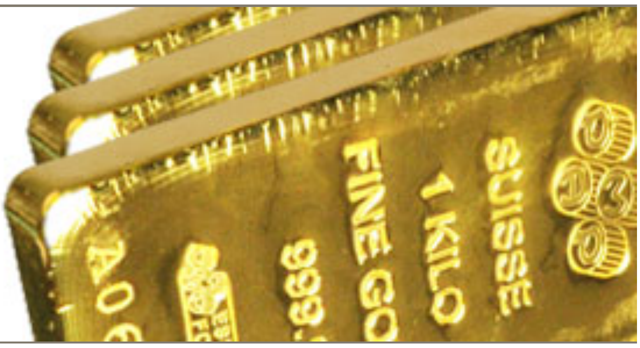

Thursday, November 7th - 2012

Market Update: What Obama's Fiscal Cliff Dilemma Means For Gold

It's been a tough week for precious metal investors, with gold and silver continuing to show signs of weakness in the lead up to the US Presidential election.

Gold last traded at USD$1683, down nearly $100 (or 5%) from the USD $1780 mark it was trading at in early October. Silver has been similarly weak over the past few weeks, trading around USD $31 yesterday, down about $3.50 or nearly 10% on where it was one month ago.

Gold had a particularly bad day on Friday 2nd November, when a surprisingly 'good' jobs report from the US sent the gold price tumbling USD $40 down to USD $1675.

According to **the job report from the Bureau of Labor Statistics**, 171,000 jobs were created in the month of October, which was considerably higher than the 125,000 'the market' predicted.

But, why did the release of this report cause a fall in the gold price? Market participants assign higher employment figures with a 'recovering economy'. Theoretically, this could mean the Federal Reserve would be able to stop printing money, and even begin to raise interest rates sooner than they otherwise would be able to. Extremely low interest rates and continued money printing are interpreted as being bullish for gold, hence a cessation of such activities is seen as being bearish for gold.

Whilst on the face of it there is some logic to the markets interpretation of the October job report, we would caution against anyone giving too much credence to the idea that job market (and the US economy) is really improving by making the following observations:

- The US unemployment rate actually picked up to 7.9%
- The underemployment rate (U-6) is still at 14.6% (nearly double where it was at the end of 2007 when the GFC 'started')
- The number of Americans on food stamps continues to rise, and has now nearly doubled since the GFC and now stands at over 45 million.
- America's Labor Force Participation Rate (currently 63.8) is still 2.2% below where it was in 2007. If it were still at 66, the official unemployment rate would be closer to 11%, not the 7.9% we are hearing about.

The conclusion from looking at all this information and putting it in the proper perspective is that despite the superficial improvement in the US economy and the job market there, significant challenges remain, and the likelihood is that there will be low interest rates and continued money printing for many years to come.

As a result, whilst the pullback in gold and precious metals over the past few weeks has been particularly frustrating for gold bulls, it must again be stressed its against a backdrop of continued uncertainty surrounding the US Presidential Election, and the looming US fiscal cliff.

Although the election was concluded in favour of President Obama, late yesterday afternoon, the US fiscal cliff issue is not likely to be resolved for at least another month or so. This issue, where GDP will likely slump by more than 4% next year if tax-cuts due to expire and spending cuts due to kick in are not delayed, would pose a significant threat to the US economy, as well as the stock-market. In all likelihood, if this were to come to pass without any last minute changes, the US economy would fall back into recession. As a result, we would anticipate that negotiating some form of compromise to this issue will be **priority number 1 for the newly re-elected President Obama**.

Uncertainty around the fiscal cliff will keep investors nervous, and on their toes in the short-term, and will mean all asset markets (including gold) will be susceptible to short-term volatility. In this context, price pullbacks are not necessarily unexpected.

However, all the reasons to own a portion of your wealth in gold remain, and are likely to be with us for many years. Subdued growth, political uncertainty, increased market volatility, low to negative interest rates and central bank money printing are all likely to be features of the economic landscape for many years to come. For as long as this is the case, many respected analysts are recommending gold as a sensible investment.

Putting the short-term price moves into perspective is a great strategy. The chart below helps to provide clarity to the long-term trend for gold, in all currencies. As you can see, no matter if you are talking USD, AUD, GBP etc, gold has been going up by a minimum of 11.1% per annum for the better part of 10 years now.

Even this year, which has frustrated many precious metals uber-bulls, gold has still provided returns of 6-7% for Australian and US investors. That is hardly a poor return in an environment where real interest rates are at or below zero, and where markets have continued to be volatile.

Gold Price % Annual Change Tuesday, November 06, 2012

	USD	AUD	CAD	CHF	CNY	EUR	GBP	INR	JPY
2003	21.1%	-8.5%	0.6%	7.6%	-	1.7%	9.9%	14.8%	-
2004	5.4%	1.4%	-2.1%	-3.5%	13.6%	-3.1%	-2.4%	0.5%	3.7%
2005	20.0%	28.9%	15.4%	37.8%	21.3%	36.7%	33.0%	24.2%	37.6%
2006	23.0%	12.6%	23.0%	14.2%	18.7%	10.6%	8.3%	20.8%	24.4%
2007	30.9%	18.3%	12.1%	21.7%	23.3%	18.4%	29.2%	16.5%	22.9%
2008	5.6%	31.3%	30.1%	-0.1%	-2.4%	10.5%	43.2%	28.8%	-14.4%
2009	23.4%	-3.0%	5.9%	20.1%	23.6%	20.7%	12.7%	19.3%	26.8%
2010	27.1%	13.3%	21.3%	15.4%	22.8%	37.1%	31.4%	22.3%	11.4%
2011	10.1%	10.2%	13.5%	11.2%	5.9%	14.2%	10.5%	31.1%	4.5%
2012	9.5%	7.4%	6.7%	10.0%	9.6%	10.6%	6.3%	12.0%	14.5%
Average	17.6%	11.2%	12.7%	13.4%	15.2%	15.8%	18.2%	19.0%	14.6%

goldprice.org

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