



Gold corrects as RBA slashes rates again

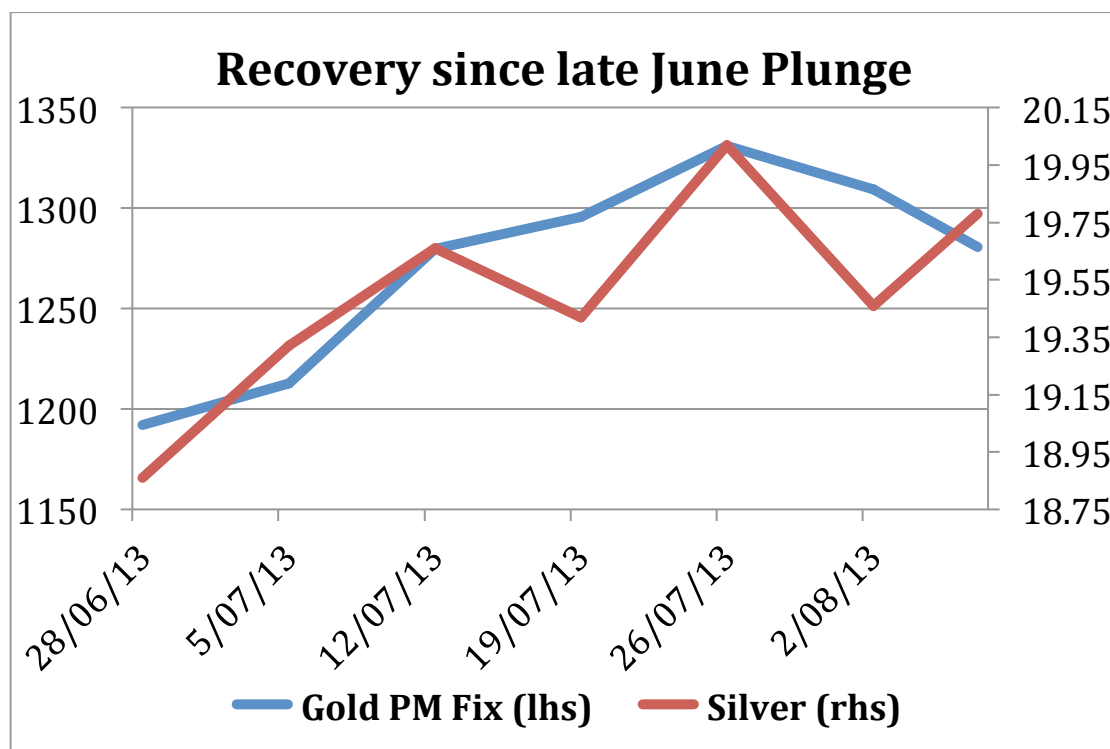
After spending the last few weeks holding well above USD \$1300, gold prices have retreated over the last week, and are currently sitting at USD \$1284, down 2.36% in the past week.

The weakness has been matched in the silver market, where prices have fallen from just over USD \$20 in late July to USD \$19.60 today.

Gold originally traded down below USD \$1300 late last week, on the 2nd August in the lead up to the US non-farm payroll report, but a disappointing headline print (see more information below) led to a sharp rally back later that day, with gold closing back above USD \$1300 for the week.

Unfortunately for gold bulls though, the market wasn't able to hold on to that gain, with improved data out of Europe and the US encouraging the weakness we've seen the past 3 days.

Despite this recent bout of weakness, gold and silver have largely recovered the majority of their late June plunge, which is captured neatly on this chart which shows the weekly (Friday) USD prices for both metals since Friday the 28th June.



And whilst the recent pullback is disappointing to those who are already fully invested, it's clear that many are seeing the current weakness as a buying opportunity, with the demand for physical precious metals remaining robust.

Whilst we often talk about imports into Hong Kong and China (which have had combined net inflows of over 700 tonnes year to date so far until the end of June) when highlighting physical demand, this week we noted that, looking at data from the US Mint, we can see that sales of their silver eagle coin nearly doubled in the 12 months to July 2013, from 2.3 million troy ounces to 4.5 million troy ounces.

This is hardly the sign of a capitulating market or in fact a market where demand is anything other than extremely strong.

The RBA cuts again as economy weakens leading into Federal election

The big news this week in Australia has been the RBA interest rate decision, and of course the announcement of the Federal election.

Despite the uptick in house prices this past quarter (led by an eye popping 11% annual increase in home prices in WA), economic data out of Australia over the past few days has been overwhelmingly negative:

- The contraction in our service sector worsened, with the Australian Industry Group Performance of Services index falling 39.4 points in July (the lowest since March 09 i.e. the height of the GFC).
- Inflation, as calculated in the TD Securities/Melbourne Institute report, rose by 0.5% in one month and now up 2.7% in the last year.
- ANZ job ads continue their decline, down another 1.1% for the month. Most notable was the decline in Western Australia, with job ads **down 45% in the past year**.
- The Roy Morgan unemployment rate rose to over 10% and consumer confidence fell.
- Retail sales figures remaining flat, despite expectations of a rise
- Treasurer Chris Bowen revising the national accounts, indicating we're still nowhere near a balanced budget, with our deficit blowing out to \$30bn
- Reports of a [blow-out in the cost](#) of the National Broadband Network, to the tune of \$5bn

Not surprisingly, the data led the RBA to cut interest rates to a record low of 2.50%, cheering up homeowners but once again punishing savers and retirees.

Whilst, post-announcement the mainstream media focused on the fact the RBA removed their 'easing bias', the RBA did specify they thought the AUD was still too high.

The fact the AUD appreciated vs. the USD in the 24 hours after the rate cut will not have pleased them, and helps make the case for even lower rates later this year.

We think it's a near-certainty interest rates will end this year at 2.25% or lower.

And, whilst both sides of politics will jump on any decisions by the RBA and spin it into a story about their supposedly superior economic management, [this article](#) perhaps best captures the changed mood in Australia between 2007 (when Kevin Rudd last ran for Prime Minister) and today

When you consider the weakening employment outlook, and the increase in price of many essentials over that time (table below taken from same newspaper), it's not hard to see why confidence has fallen.

Table 1. Increase in costs of typical household items since 2007

Household Item	2007 Price	2013 Price
Average Mortgage	\$1,300	\$1,800
Electricity prices	18.45c/kWh	30.75c/kWh
Gas prices	\$3.36/GJ	\$5.45/GJ
Water prices	\$1.93/kl	\$2.99/kl
GP Visit Cost	\$40	\$70

If we do get the continued fall in the AUD that the RBA is obviously looking for, the inflation story will only get worse as imported inflation rises.

With that in mind, whilst like many Australians I'll be happy to see the end of the election, it's hard to see it really leading to a sustainable uptick in consumer or business confidence, or get people spending and investing again.

For those with a couple of spare minutes and who'd like an article about Australia, not directly election-related (goodness knows we need the distraction), we'd recommend you cast your eyes over [this article](#), which highlights just how much money we Australians were charged in superannuation fees last year.

I'm not too sure we're getting value for money there.

Federal Reserve Tapering Update

It's been another mixed bag of US economic data the past few days, with stronger than expected manufacturing data being offset by a very poor employment report last week.

Non-farm payrolls were well below expectations, previous months' job additions were revised lower, and average hourly earnings and average hours worked all dropped.

Factory orders also fell short of expectations, whilst construction spending actually fell.

Finally, markets celebrated a large fall in the US trade deficit, which narrowed from \$44 to \$34 billion in the month of June.

In terms of getting a gauge on how strong this US economic 'recovery' really is, [this chart pack](#) is worth a quick review. Hardly robust!

All this has added to the confusion around the Fed tapering debate, with three Fed presidents out and about talking about discussing it. They all reiterated that September is still 'in-play' as regards to when they might start reducing the monthly volume of QE.

One Fed governor, Charles Evans, had this to say on Tuesday night Australian time:

"We are quite likely to reduce the flow of purchases rate starting later this year – I couldn't tell you exactly which month that will be – and it's likely to wind down over time in a couple or few stages."

This statement is deliberately ambiguous, as whilst it does suggest QE will be tapered, it's only "quite likely". It might start in September, but he "*couldn't tell you exactly which month*".

As regards to actually ending QE, again there is a clear hint that that's what the Fed is aiming toward, but at this stage, they're only "likely to wind down", and as to what that process would look like, not even they know, as it will happen "in a couple **or** few stages".

Needless to say, this 'we will, we won't, we might' attitude from the Fed can only exacerbate the market's state of confusion, and will likely lead to additional volatility in stocks, bonds and gold.

Until next week,



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