



31.10.13

Gold steady as Fed maintains pace of QE programme

Gold prices have eased back in the past 48 hours, after a strong start to the trading week which saw the USD spot price hit \$1361 on the London PM Fix. At present, with prices trading at USD \$1340.40, they are down -0.5% for the week, although the yellow metal is still marginally positive for the month, up just over 1%.

Silver has been a little stronger than gold the past few days, starting the week at USD \$22.35 and currently sitting at USD \$22.62, up just over 1% these past four days, and 4.5% for the month.

The overnight session was eventful for both metals, with gold rallying from USD \$1340 up to USD \$1360 at one point, before giving back all of these gains when the Federal Reserve released the minutes accompanying their decision not to taper the current QE programme.

Interpreted by the market as 'hawkish', gold, bonds and stocks sold off, whilst the USD was bid up.

The pullback (or at the very least non-reaction) of gold in light of the Fed's 'do nothing' approach this month is hardly surprising. Markets tend to price in 'expected' news before it happens, and often ease back if the news does come in line with expectations. It's only when markets are genuinely surprised that they tend to react significantly.

We've seen this twice in the past few weeks in the gold market, firstly when it shot up USD \$60-\$70 when the Fed didn't taper in September, and again when the US debt 'non-deal' was signed a couple of weeks ago, which was a mere can-kicking exercise into early 2014.

Despite stagnant to weakening prices this week, there's been no let up in the premiums being paid for physical bullion in India, with a report in Reuters suggesting that [they've blown out to as high as USD \\$130 an ounce](#), nearly 10% above the prevailing spot price.

Premiums are likely to remain elevated in the lead up to Diwali, especially in light of the restrictions around importation of physical gold that have been passed this year in India.

So where does gold go as 2013 draws to a close?

Whilst the bullish fundamentals for precious metals not only remain in place, but are strengthening by the day, the short-term outlook is less clear (not only for gold but for all markets it must be said).

Investor sentiment towards gold is still overwhelmingly bearish, with consensus opinion remaining that Fed tapering will indeed occur in Q1 2014, and this will lead to lower prices in the future.

Even many well-known gold bulls are short-term neutral at best, if not outright bearish leading into the final 2 months of the year, with many predicting prices will re-test the June low around USD \$1200, and that a sell-off to the USD \$1000 to USD \$1050 area could be in order over the next few weeks.

This gels with the 'consensus' opinion at the LBMA conference which thought that the bull market remained in tact, but that a clear out to USD \$1050 was required prior to gold resuming its secular run higher.

Indeed, one person I spoke to last week even questioned whether or not we've been in gold bull market at all this past decade (as opposed to a more generic commodities bull market), pointing out the lack of correlation (so far) between increased Chinese buying and higher prices, and the fact that other commodities like oil and copper have had similar price appreciation these past 10 years.

Whilst I am not willing to rule out the prospect of lower prices and indeed a move down toward the USD \$1,000 to USD \$1200 range, I am reminded of [Bob Farrell's '10 Rules of Investing'](#), penned by the Wall Street veteran and legend with nearly 50 years in 'the game'.

Any investor would do well to pay attention to all 10 of these rules, but for the purpose of this week's report, and where gold is going short term, pay particular attention to lesson number 9:

"When all the experts and forecasts agree – something else is going to happen"

This was relevant for gold bulls late last year, when most heralded the announcement and expansion of QE3 as the ignition switch for the next leg higher in precious metal prices. Instead, we all know that instead of USD \$2000 gold prices and beyond, we've instead witnessed the most serious correction of the entire bull market.

Using the same logic, the fact many (although admittedly not all, with CitiGroup recently suggesting gold was heading north of USD \$1,400) long-term bulls are short-term bears give me some comfort that June did mark the low in this correction.

More important than this is that whilst a correction down toward or below USD \$1200 would hurt short-term, it would an even cheaper entry point to position more capital into this sector, which would make sense if you still believe in the secular bull market.

I'd be buying into it.

Economic data this week

There's been a lot of data released this week, not only from the US but also Europe and Japan. Whilst there have been some very poor figures and the trend is toward declining growth rates in my opinion, not all the news was bad, with some of the headlines including:

- US retail sales slipped, highlighting the precarious position US consumers find themselves in. Were it not for Department of Commerce 'adjustments' to the figures, retail sales would have looked even worse, as [this report from Zerohedge highlights](#).
- US consumer confidence plunged by the largest amount in over 2 years.
- US house prices continued to rise, now up nearly 13% year on year.
- US industrial production and capacity utilisation figures improved.
- French consumer confidence remained steady.
- Spanish retail sales improved, although of a very low base.
- Japanese household spending, retail trade and unemployment figures all improved.
- European consumer confidence figures rose to 97.8, their highest level since August 2011.
- Mortgage Applications in the USA rose by over 6% for the week, the first substantial rise in some time, not surprising as borrowing costs eased to their lowest levels since June.
- ADP employment figures for the USA were released, with their worst print since April of this year. Only 130,000 jobs were created, well below expectations, and August numbers were also revised down, to 145,000.

Later this week, the Bank of Japan will make their interest rate decision, although nothing of note is expected here, and we'll also see European CPI figures released.

In terms of what all this data will add up to, at least in terms of US GDP growth, SocGen are out with an updated, and downgraded, US growth forecast, stating that:

"Data available to date suggests that the economy clocked in a 2.3% annualized growth rate in Q3, i.e. marginally lower than our published forecast of 3%. While nearly every sector of the economy has shown some deceleration vs. Q2, consumer demand is the major reason for our revision, with real consumption now assumed to have grown at just 1.5%. We are also revising down our Q4 forecast from 3.6% to 3.0% to account for the effects of the government shutdown and for the slightly weaker momentum coming out of Q3."

If they're right, we're hardly going to see the Fed tapering any time soon, even if the market interpreted the overnight Fed statement as being supportive towards the idea of tapering sooner, rather than later.

Reserve Bank of Australia (RBA) speaks

RBA Governor Glenn Stevens spoke on Tuesday this week, addressing the crowd at Citi's 5th Annual Australian & New Zealand Investment Conference.

His speech briefly covered the global economic picture ('improving but uncertain' was his take), before delving into issues more specifically relevant to Australia, including the high level of the AUD, and the state of the Australian housing market.

Suffice to say that Governor Stevens is well aware that he is stuck between a rock and a hard place. He knows that ultra low interest rates are sparking a speculative boom in property prices, which he is not keen on at all, as he'd like to see housing construction rise, not just housing values.

He knows also that the current high level of the AUD is making it difficult for manufacturers, retail and tourism etc. to compete, areas he desperately wants to see a pick-up in activity in, such as our mining sector, have come off the boil.

[The whole speech is worth reading](#), but personally, my favourite comment was relating to the Fed and when, if ever, they are going to slow the pace of their QE programme:

"Surely the 'taper' will come. We should hope it will, since it will signal that the US economy is well established on a recovery track, and it will start to lessen some of the uncomfortable spillover effects unavoidably associated with the present set of policies."

The first response to this statement that surely the taper will come is: what if it doesn't? What if the world can't function without evermore QE and printed currency?

It's not too hard to read between the lines of the Governor's statement here. Basically, if the Fed doesn't taper, it's proof that we aren't seeing an economic recovery at all.

Furthermore, the spillover effects of this QE are not only asset price inflation across the globe completely divorced from economic reality, but for Australia specifically, a much higher AUD than the RBA desires. If this continues, then it will in all likelihood force the RBA to cut interest rates further, even though this risks blowing domestic asset price inflation even higher, not least of which is our housing bubble.

Make no mistake, whilst in the short-term at least, Mr Stevens will no doubt be happy with the impact of his speech, as the AUD did fall in the aftermath of it, he knows he is hostage to the FOMC and that Australia is stuck between two equally unpleasant alternatives.

Unhappy Anniversary

Finally, Tuesday October 29th marked the 84th anniversary of Black Tuesday, the great stock crash of 1929 which ended up seeing the Dow fall nearly 90%, and the Great Depression arrive.

The Washington Post carried a great, short article about the period, as well as the headlines of the day, including the interesting one that [“Money Kings to Keep Strength in the Market”](#).

Clearly, the situation 84 years ago wasn't entirely unlike today where the major support for asset prices is a belief that the modern money kings Bernanke, Draghi, Kuroda and Carney, and soon-to-be Queen Yellen will continue to provide strength and support to the markets.

Until next week,



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