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Gold eases as US GDP tanks 01.05.14

It's a huge week of economic data. Not only did we have US GDP figures overnight (they were horrible – more on that below), but we've had the latest FOMC meeting, and non-farm payrolls are due later this week in the USA too.

Looking at the latest action with the gold price, we've seen the month of April finish on a slightly weaker note, with gold dropping from USD \$1301.25oz (PM Fix 25th April) to USD \$1288.50oz (PM Fix 30th April), whilst silver has dropped a couple of per-cent over the last week as well.

Over the month, again using the PM fix as our reference point, gold was basically flat, falling \$3oz, and traded in a range between USD \$1270oz and USD \$1325oz.

Year to date the metal is now up 7%, whilst silver fell about 3% for the month and is now marginally negative over the year in USD terms.

Australian dollar investors experienced a similar overall result for the month, although our currency jumped around quite a bit in the meantime. At one point it headed above USD \$0.94, before easing back on lower than expected CPI figures.

With the latest plunge in iron ore prices, it's perhaps surprising the AUD hasn't fallen more, perhaps a sign that the markets don't quite buy the Fed's story that they'll fully unwind QE, even though they did taper again overnight.

I do still expect a lower AUD in the coming years, as it is so unlikely that our economy can successfully rebalance away from the mining boom, a position that gained further credence this morning with the release of the latest AiG Manufacturing Survey, which dropped a further 3.1 points, with production, and most worryingly, new orders plummeting.

<http://www.businessinsider.com.au/australian-manufacturing-index-collapses-to-lowest-level-since-july-2013-2014-5>

US GDP tanks whilst the Fed tapers

Biggest news overnight was the release of US GDP figures for Q1 this year. Whilst everybody was expecting growth numbers to have been affected by what is now

the most infamous bout of bad weather since Napoleon tried to invade Russia, the market was still expecting the US GDP print to come in at 1.2%.

Instead, Q1 GDP came in at a measly 0.1%. That is not a misprint. The US economy was on the verge of recession last quarter according to these figures, and whilst a lot of more forward looking data released in April has been more encouraging, there is no disguising just how bad a result this was.

Other data overnight in US was mixed. The ADP private sector payroll report showed an increase of 222,000 jobs in April, which beat consensus and has already led a few people to increase their expectations for Friday's non-farm payroll report.

As the below link highlights, nearly all the jobs were created in services (197,000), with professional/business services the standout.

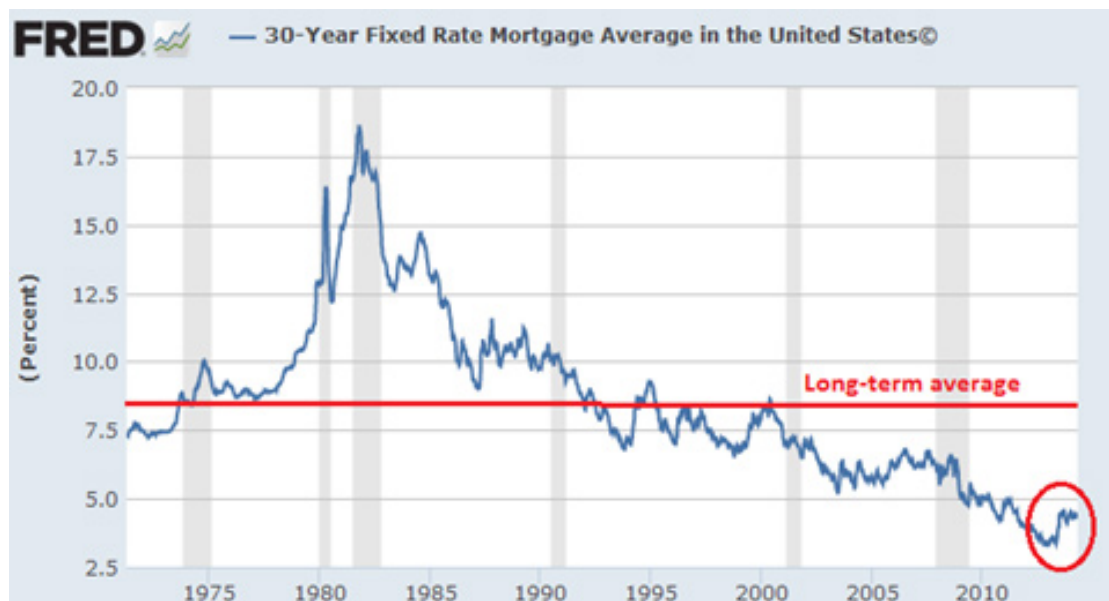
<http://adpemploymentreport.com/2014/April/NER/docs/ADP-NATIONAL-EMPLOYMENT-REPORT-April2014-Final-Press-Release.pdf>

The Chicago Purchasing Managers index also beat expectations, rising to 63.0, a large rise from its previous reading of 55.9, with expectations of a rise to 56.7.

More alarming though was the latest MBA mortgage applications data, which plummeted again, down 5.9%, bringing mortgage applications to their lowest level since December 2000.

<http://www.mortgagebankers.org/NewsandMedia/PressCenter/88101.htm>

Again, that is not a misprint. Here we are, 5 years on from the 'end' of the GFC, with interest rates at zero and the Fed moving heaven and earth to stimulate the housing market, yet demand for home loans (both refinancing and purchasing) applications are at lows they haven't seen in more than a decade.



It's even more alarming when you consider the above chart, which shows that current 30-year mortgage rates are well below their long-term averages. In fact, at roughly 4.3%, the rate is about half the long-term average, and well below where it was in December 2000, the last time mortgage financing activity was as weak as it is today.

Despite the much weaker than expected GDP data and the lukewarm data on employment, mortgages and the like, the Fed still went ahead with their latest round of tapering, announcing that they plan to reduce the pace of their asset purchases to only \$45bn a month, with \$20bn directed toward mortgage backed securities and \$25bn toward Treasuries.

The Fed apparently thinks that the growth in economic activity has picked up recently (perhaps it has marginally since March, but as we know from that GDP print, it was from a base of effectively zero).

The Fed statement, as well as some comments on US GDP and other data out overnight (nearly all of which I agree with) is covered in this excellent post on the Macrobusiness website which you can read here.

<http://www.macrobusiness.com.au/2014/05/us-gdp-crashes-fed-tapers-aussie-roars/>

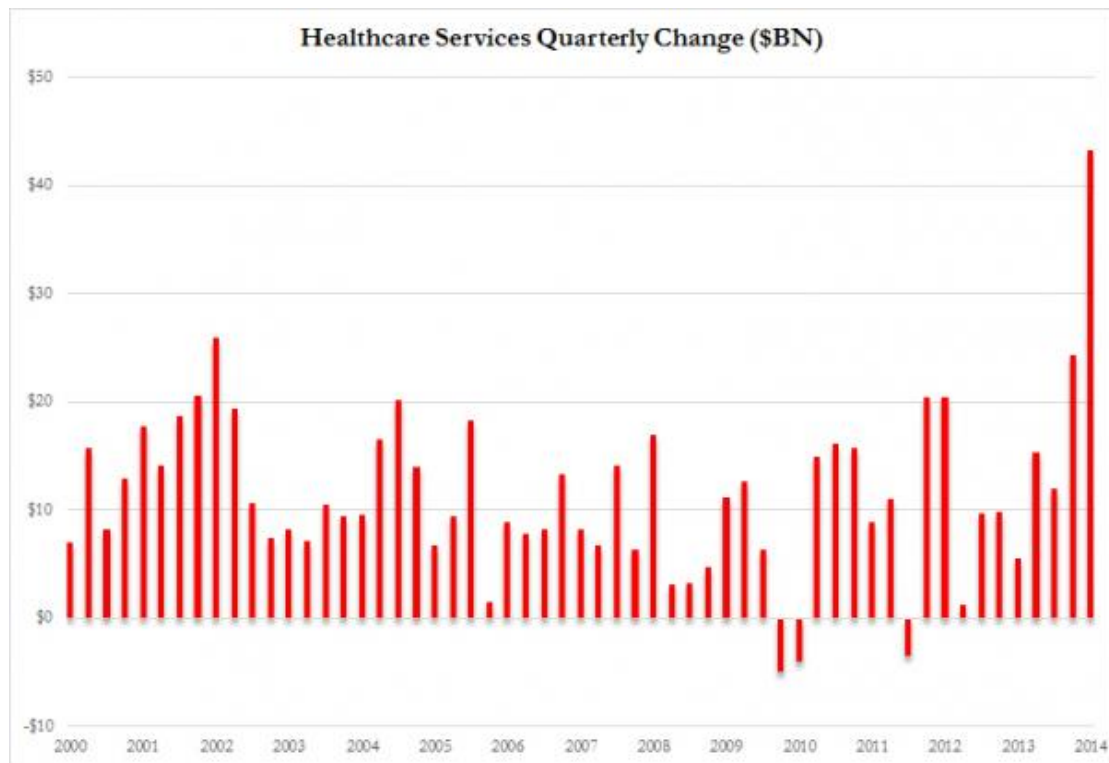
Back to the GDP data, and the nature of GDP itself - those of you who read our latest directions report released a fortnight or so ago, you'll know I think GDP growth is a silly way to measure the health of an economy, or the prosperity of the people within a nation.

Indeed, according to an article carried by Zerohedge, if it wasn't for Obamacare and the huge government mandated increase in spending on healthcare, then GDP would have been negative.

<http://www.zerohedge.com/news/2014-04-30/if-it-wasnt-obamacare-q1-gdp-would-be-negative>

It's almost amusing that some in the mainstream financial media will use the argument that Obamacare is 'good for the economy', as it 'saved it from recession'.

Certainly the graph below shows just how outsized (in a historical sense) the increase in spending on healthcare services was on a quarterly basis.



Furthermore, with rates at zero, central banks printing money and budget deficits in the developed world averaging circa 5% of GDP each year since the GFC hit, these kind of results give more credence to the argument I made in that directions report that GDP might as well stand for “Government Dependant Programme”.

For those of you that missed the report, you can find it here – although it’s a good 30-minute read, as it deals with GDP and debt figures etc. for the worlds largest 11 economies.

<http://www.abcbullion.com.au/site/assets/media/Education/Quarterly-Directions-Report-16th-April-2014.pdf>

CME to regulate the metals volatility

Back to precious metals and Reuters carried an interesting piece on the 29th April that suggested the CME group were considering introducing daily limits on the size of the price moves in gold and silver, supposedly to reduce volatility, which they believe is curbing investor appetite.

<http://www.reuters.com/article/2014/04/29/cme-group-precious-idUSL2N0NL1GY20140429?feedType=RSS&feedName=companyNews>

For mine, I would say reduced investor appetite is likely linked to the substantial decline in metals prices in the past two or so years.

Furthermore, according to Alex Thorndike, Senior Precious Metals & FX Dealer at MKS Group; intra day volatility is about half what it was a few years ago, so its an

interesting time to be launching this, and as one who is always sceptical about more regulation of markets, I'm not sure this will be a positive development should it take place.

Deutsche quits the Fix

Another interesting precious metal related topic that has emerged recently was the announcement by Deutsche Bank that they are quitting their seat on the London precious metal fix, leaving just four banks involved in the process.

Sources suggest that Deutsche has been unable to find a buyer, perhaps unsurprising in light of allegations that the 'Fix' was more 'fixed' than it should be, with ongoing investigations into price-rigging by the banks involved in the process.

The decision by Deutsche Bank could be linked to those allegations, but it must also be said they've also decided to wind back their broader commodities business (as have other banks), so now is not the time for conspiracy theories in my opinion.

Interestingly enough, for those of you who subscribe to our bullion university series, you'll know that one of the issues our latest edition dealt with was how the London Fix actually works.

For those of you who would like to read it, you can find it here, and feel free to subscribe to the series via our Investor Centre sign up page.

<http://abcbullion.createsend4.com/t/ViewEmail/i/24994324B0D60D44>

<http://www.abcbullion.com.au/subscribers/signup>.

Gold in China

Before I finish for the week, I just wanted to share one last article. This one is on the subject of gold demand in China, written by the excellent, Frank Holmes of US Global Investors.

The following chart, pulled from the article, shows the incredible gold jewellery demand in China and how it has grown 200-300 tonnes a decade ago, to over 650 tonnes today, representing roughly 60% of total private sector demand.

It's important to remember though that its almost impossible to differentiate or delineate between 'jewellery' demand vs. pure 'investment' demand, as the two are intrinsically linked, which the latest World Gold Council report on Chinese gold demand also attested to.

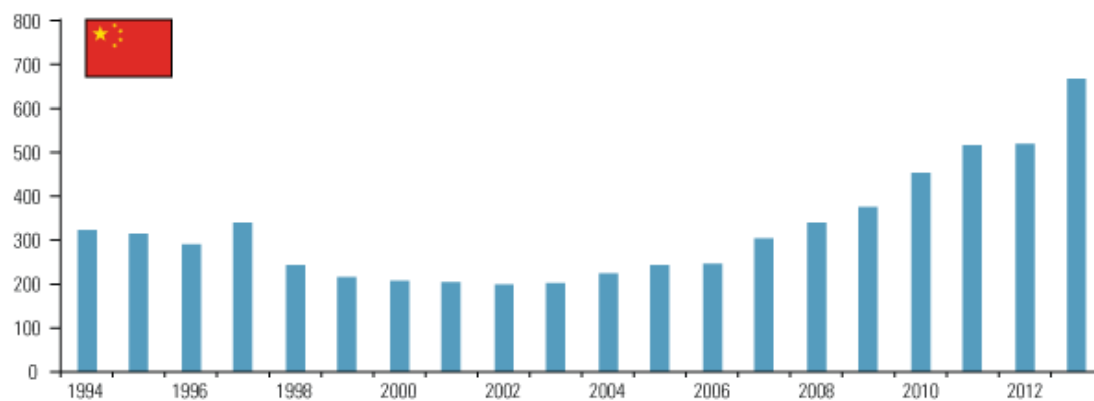
Remember of course, that the Chinese character for gold (Jin) is also a synonym for money, and it begins to make sense why over 80% of Chinese consumers

agreed with a survey question that “gold jewellery is as much an investment as it is a fashion item”

Anyway, here is that chart, and I’ve linked in the whole article below

Chinese Jewelry Consumption Triples Since 2004

Volume in Tonnes



Source: Precious Metals Insights, Shanghai Gold Exchange, Thomson Reuters GFMS, World Gold Council, U.S. Global Investors

<http://www.usfunds.com/investor-library/frank-talk/china-holds-the-keys-to-the-gold-market/#.U2GRYT5U5Ut>

Until next week.

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