

Rand Refinery Daily Gold Update



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Gold	Today	Change	Week Ago	Month Ago	Year Ago
	\$1,190.80	+\$1,10	\$1,192.90	\$1,233.25	\$949.75

Gold prices edged lower on Comex, on Friday, following the results of the European bank stress test. Prices for most of the week were range bound, trading between \$1180 - \$1220 per ounce. It seemed that traders were not prepared to do anything until they knew the results of the stress test of 91 banks in the Eurozone.

When the results were finally released, the reaction from the market was very subdued. Seven of 91 European Union banks subject to the stress tests failed with a combined capital shortfall of 3.5 billion euros (\$4.5 billion), stirring concern the evaluations weren't strict enough. Hypo Real Estate Holding AG, Agricultural Bank of Greece SA, and five Spanish savings banks have insufficient reserves to maintain a Tier 1 capital ratio of at least 6 percent in the event of a recession and sovereign-debt crisis, lenders and regulators said today.

Another reason why the markets hardly reacted to the news is perhaps partly due to the fact that the report was not released until after the European markets were closed and liquidity was significantly drained. Also, many analysts claim that the tests were far from being stressful. One other problem now surfacing in regards to the stress test is that many analysts are not convinced that this was a real test. The seven banks that fell short are already in some way supported by the government, and therefore pose little threat. The next concern is over the methodology of the tests themselves. The scenarios don't account for a sovereign default or a particularly significant regional crisis. Furthermore the accounting for losses on sovereign debt can be

pushed off depending on how the banks report.

Following the results, the currency markets experienced some choppy trading, which is not unusual in the immediate aftermath of major news or data. Initial movements often reflect knee-jerk reactions which investors may ignore once they've had time to digest the details of the report.

Shortly after the disclosure, the euro tumbled to \$1.28 from \$1.30, but later it crept back to \$1.29. The prices of August gold, finally closed down \$7.80/oz at \$1,187.80/oz on the Comex division of the NYMEX. Gold prices gained on Monday on bargain hunting and purchases from jewellers in Hong Kong. But, the price of the yellow metal retreated slightly towards the opening of the European markets.



About the author: David Levenstein is an independent precious metals market commentator with more than 30 years experience.

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