



MAIN TOPICS

- Gold prices drop during July
- US Dollar loses ground
- US economic recovery in question
- Lower prices should stimulate physical buying
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Rand Refinery Weekly Gold Commentary

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02 August, 2010

During July, the price of gold fell 5 percent trading as low as \$1156/oz on July 28. This price drop is the first monthly decline since March, and gold has fallen 6.5 percent from its June 21 record of \$1,266.50. Holdings in the SPDR Gold Trust (GLD), the biggest exchange-traded fund backed by bullion, declined 1.5 percent last week, heading for the biggest weekly drop since April 2009. As of July 30, holdings of the US (GLD) were 1282.279 tons which is up by more than 13% since the beginning of the year. However, during July the holdings of the US GLD shrank by just over 38 tons. At the end of June the holdings were 1320.436 tons.

While this liquidation may represent a change in the sentiment of a few investors, it is hardly indicative of a panic sell-off or a major switch out of the yellow metal. The fundamentals behind the current bull market in gold have not changed and most of the selling during July was instigated by the large commercials that use gold futures on Comex. And, as far as I am concerned, the price of gold is not about to collapse under any scenario in the future. This bull market has still a long way to go and what we have seen is another correction which is normal market behaviour.

Latest decline in the gold price is temporary

"We view the latest decline in the gold price as temporary," analysts at Deutsche Bank AG said last week in a report. "This weakness has been driven more by liquidation in net length among the investor community than a structural change in fundamentals."

Once again the US dollar was broadly lower due to a potential stalling of the recovery in the US as well as a falling treasury yield. The highly anticipated US GDP report showed lower than expected growth of 2.4% annualized rate in Q2. Also, revisions of real GDP for 2007, 2008, 2009 were released. 2007's GDP was revised down from 2.1% to 1.9%, 2008 down from 0.4% to 0.0%, 2009 down from -2.4% to -2.6%. These revisions showed a much deeper recession than originally reported and in turn indicated that the US economy has a deeper hold to dig itself out of.

Even though the EUR/USD managed to hold above the 1.3000 handle, it seemed to lose much of its momentum after hitting 1.3100. The Euro weakened slightly against the Swiss Franc and Sterling towards the end of the week even though economic data out of Eurozone was not entirely bad. The US Dollar index dropped further to as low as 81.46 last week. The near term outlook remains bearish with some forex traders targeting the psychological level of 80 which also represents a 61.8% retracement.

Crude oil futures continued to trade in a very narrow range, unable to cross the \$79 a barrel threshold even though they ended 4.4% higher on the month. The benchmark West Texas Intermediate (WTI) rallied with the stock market late Friday to finish the week at \$78.95 a barrel, virtually unchanged from \$78.98 a week ago,

after dipping just below \$77 a barrel earlier in the week. End-of-month trading might have accounted for some the late gains, analysts said.

Lower gold prices will see a reemergence of physical demand

I believe that the drop in gold prices will meet with a reemergence of physical demand, especially from India. The lower prices will also encourage investors to add more gold to their portfolios, especially as we approach the end of the traditional seasonal lows for gold. This combined with further currency turmoil that I believe is imminent, is setting gold up for a move to the upside and a re-test of the recent historical highs.

TECHNICAL ANALYSIS



Even though the price of gold has been trading below its medium-term 50 day moving average, it has held above the long-term 200 day moving average. Also, there was a good rebound in prices over the last three sessions as indicated by the black arrow, and as long as prices can remain above \$1155/oz - \$1160/oz, then we can expect to see higher prices over the next few weeks. However, a decisive break above \$1210/oz and \$1220/oz would be required to indicate the resumption of the up trend.



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

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