MAIN TOPICS

- US jobless claims rise
- Chinese dump more US Treasuries
- Russia adds more gold to current holdings
- Gold to outperform US Treasuries News Four

Rand Refinery Weekly Gold Commentary

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The US dollar rose throughout the course of last week against most of the major currencies after data released from the United States signalled weakness in overall economic activity. The latest US claims for unemployment benefits unexpectedly climbed to a nine month high. Analysts polled by Reuters had forecast claims dropping to 476,000 from the previously reported 484,000 the week before which was revised up to 484,000. Initial claims for unemployment increased 12,000 to a seasonally adjusted 500,000 in the week ended August 14, the highest since mid November. The Philadelphia Fed Index dropped below expectations and showed a contraction in the manufacturing sector and, the housing data released also showed further weakness, where the housing starts rose below expectations in July, while building permits dropped over the same month opposite to expectations.

Chinese continue to bail out of US Treasuries

According to data released by the US Department of the Treasury, China's holdings of Treasuries fell 6 percent in the first half to $843.7 billion… down almost $100 billion in the past year. China more than doubled South Korean debt holdings this year, spurring the notes' longest rally in more than three years, as policy makers shifted part of the world's largest foreign-exchange reserves out of dollars. The amount of Korean Treasury bonds held by Chinese investors rose 111 percent to 3.99 trillion won ($3.4 billion) in the first half of the year, according to data released from the Seoul-based Financial Supervisory Service. China's holdings of South Korean notes account for little more than 0.1 percent of its $2.45 trillion reserves.

The central banks of Hong Kong, Russia, Saudi Arabia and Russia also appear to be actively diversifying out of US Treasuries. While, none of these banks have made any public statement as to what they are diversifying into, judging by their increase in gold holdings, one can assume that gold is one asset that they have chosen. In this year alone the central banks of China, Saudi Arabia and Russia have all increased their gold holdings. During the month of July, the Central Bank of the Russian Federation added another 500,000 ounces to their gold holdings bringing their total holdings to date up to 23.3 million ounces... or 724.7 tons. In the last seven months their holdings have increased by 2.8 million ounces which is over 10% of their entire holdings.

The U.S. debt has grown rapidly with the economic downturn and government spending for the Wall Street bailout, the wars in Afghanistan and Iraq and the economic stimulus. The total U.S. debt includes obligations to the Social Security retirement program and other government trust funds. The amount of debt held by investors, which include China and other countries as well as individuals and pension funds, will rise to an estimated $14 trillion this year and to an estimated $19.6 trillion by 2015.

A decline in foreign demand for US Treasuries would lead to higher interest rates in the United States as yields tend to rise when fewer people invest in them. This would result in the US government having to pay more interest on its $13.3 trillion national debt. And, consumers would have to pay more on their mortgages and auto loans and other borrowings from banks. As countries diversify out of US Treasuries, it is going to become more difficult to sustain any US economic recovery as the US government will not be able to sell its debt to these countries who

have been the largest holders of US debt in the past.

Doctor of Doom says gold is choice of asset class for the next ten years

The editor of "Gloom, Boom & Doom Report" Marc Faber recently told a CPA Association meeting in Abu Dhabi that gold is his asset class of choice for the next 10 years. Faber said that holding cash and bonds exposes investors to more dangers than holding equities, though he believes that equities are unlikely to make money given coming inflation. Faber said earlier in the year that investors should by some gold, every month, forever.

Since 1971 when the gold standard was abolished and the US dollar became the world's reserve currency there has been a tendency for central banks around the world to discount the value of gold. And, from 1980 till 2001 while investors made good returns in US Treasuries, central banks did whatever they could to get rid of their gold holdings. While the US dollar continues to be the "reserve currency" of the world, people fail to see that this system is faltering. And, what amazes me is how most people have "blind faith" in what they are told by their governments. If some government official says everything is fine, they believe it. However, no matter the rhetoric the facts speak for themselves. Even though I do not believe that we are heading for total monetary collapse or a major depression, I sincerely believe that gold is going to play a more important role in the global monetary system. At the moment given the fact that gold represents less than 1% of all global financial assets, as more people wake up and diversify into the yellow metal, prices will head much higher. In the long run, gold has always maintained its value unlike the value of fiat currencies that historically end in total failure.

TECHNICAL ANALYSIS

When looking at a longer term chart, we can see that the recent drop in the gold price from its historic high of $1265 to $1155 looks as if it was a small correction in the primary trend which still remains intact. And, since November 2008 when gold was trading at $700 this has been the third pull back of any significance.

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

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