



MAIN TOPICS

- Volatility in the currency market continues
- Interest rates in the UK and Eurozone remain unchanged
- Signs of a slight recovery in some western economies
- Demand for gold in China continues to increase

Rand Refinery Weekly Gold Commentary

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The gold market was very choppy for most of last week. The opening price in Asia was around the \$1210/oz level and the selling pressure on Comex dropped the price temporarily below \$1190/oz which prompted some physical buying for bullion as the weaker prices sparked interest from jewellery buyers and dealers in Asia. And, by the close in New York, on Friday, the price had rallied back above \$1210/oz.

Two weeks ago, the flight-to-safety favoured the dollar and the yen over precious metals and a stronger greenback placed further pressure on gold. Profit-taking off record highs and end of quarter selling also pushed prices down as investors traded gold for cash to make up for losses elsewhere. And, then last week the dollar and the yen were under pressure. The ECB and BoE both left rates unchanged as widely expected.

Jobless claims in the US dropped slightly more than expected to 454,000. Swiss unemployment rate dropped to 3.9% in June and Australian job data was strong and showed an expansion of 45,900 in June while unemployment rate was unchanged at 5.1%. The Canadian dollar surged on Friday in the early US session after release of much stronger than expected employment data. The job market in Canada added 93,200 jobs in June, more than four times the expectation of 20,000. The unemployment rate dropped from 8.1% to 7.9%, lowest level since January 2009. Also, the Canadian economy has added more than 400,000 jobs since July 2009 and has recouped almost all the lost since recession began in second half of 2008.

Even as economies recover, deficit reduction is not going to solve the debt issue.

Despite signs of a recovery, the problem of huge budget deficits and massive sovereign debt will continue to plague the currency market. Deficit reduction alone is not going to solve the debt issue. Even as the U.S. economy seems to be improving -- gross domestic product has increased three straight quarters, more than forty states face budget deficits.

The other problem facing the US economy is the state of their employment. Since the beginning of this recession some 8 million people lost their jobs. At the current rate of employment it will take years to recoup all these lost jobs. Include the high budget deficits in the UK as well as every country in the Eurozone and we have a recipe for further currency turmoil.

With more than 50% of all bank reserves around the world in U.S. Treasuries and since most commodities are traded in US dollars, a collapse in the greenback would have serious global consequences. Whilst I do not see this happening, with increasing budget deficits the US government may have no other choice but to engage in further

"quantitative easing," which is simply a way of saying increasing the money supply. And, the consequence of this will be a further devaluation of the greenback which of course will be good for gold.

Demand for gold in China continues to grow.

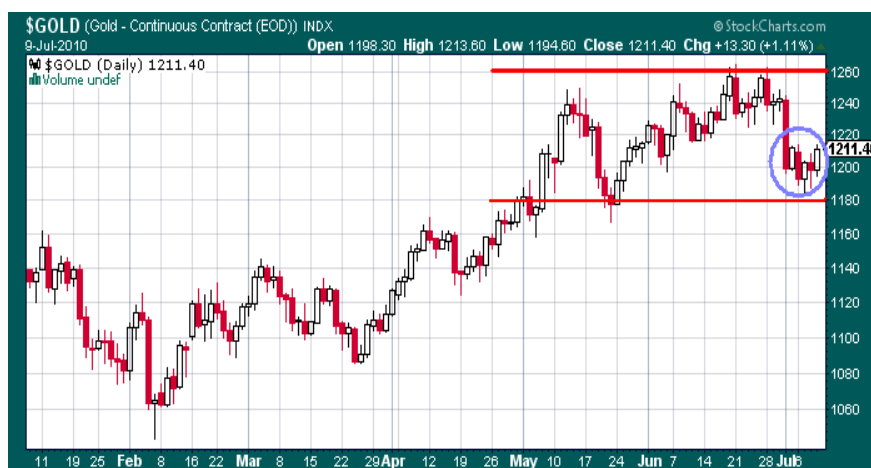
According to the Shanghai Gold Exchange, demand in China, increased in the first half of the year as government measures to cool the property market and falling equities spurred investment demand. The total volume of gold traded on the exchange jumped 59 percent in the first six months from a year earlier to the equivalent of 3,174.5 metric tons, said Song Yuqin, vice general manager at the exchange.

"Gold and silver trading volume expanded sharply in the first half of this year because a declining stock market, the government's efforts to cool the property market and the general volatility in the global financial market have all fueled the investors' enthusiasm," Song said.

"I expect China's gold demand to rise by 11 to 12 percent this year from 440 to 450 tons because Chinese investors have shown their willingness to buy more when prices are on the rise," Hou Huimin, deputy secretary-general at the China Gold Association, said. "I expect prices will rise over the remainder of this year and next year," said Hou.

Sales of gold products such as bars and coins by China Gold Group, owner of the country's largest gold deposit, jumped as much as 40 percent in the past six months, Song Quanli, deputy party secretary at the company, said today in an interview. "We have witnessed some really good sales in our retail outlets," said Song at China National.

TECHNICAL ANALYSIS



It looks as if gold is building a new trading range between \$1180/oz and \$1260/oz, and after traders failed to knock the price below the \$1180/oz support level last week we have seen some consolidation in the price of the yellow metal (see blue circle). I expect to see further choppy trading during the coming week with a bias towards the upside.



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

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