



MAIN TOPICS

- Moody's downgrade Ireland
- IMF suspend talks with Hungary
- Bernanke's testimony to the Senate Banking Committee
- European banks stress test
- Fiat currencies and gold

Rand Refinery Weekly Gold Commentary

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The week began with Moody's downgrading Ireland's sovereign debt rating from Aa1 to Aa2. And, then the EU and IMF suspended talks with Hungary. They urged the country to do more to cut the budget deficit before resuming the use of the bailout funds. The breakdown in talks means that Hungary will not have access to remaining funds of about 5.5 billion euros (US\$7.1 billion) in its 20 billion euro financing deal until the review is completed.

It is widely expected that the US Fed will increase monetary stimulus.

Then, two days later during Federal Reserve Chairman Ben Bernanke's testimony to the Senate Banking Committee which began in Washington on Wednesday he said central bankers "remain prepared" to act as needed to aid growth and "we also recognize that the economic outlook remains unusually uncertain." Bernanke also said. "We will continue to carefully assess ongoing financial and economic developments, and we remain prepared to take further policy actions as needed to foster a return to full utilization of our nation's productive potential in a context of price stability." It is widely expected that the Fed will increase monetary stimulus in a bid to keep the economy growing and reduce a jobless rate from close to a 26-year high. Many analysts believe that this is a message that the Fed will engage in further "quantitative easing," which is a new word for printing more money. Even if the US government has no other choice the consequence of this is going to be further debasement of the US dollar which will boost gold prices.

And, the week finished with nothing bullish for gold in the stress tests of 91 banks in the Eurozone. The apparent lack of response to the European Union's Stress Test results were partly due to the time the report was released. It was not released until after the European markets were closed when liquidity was significantly reduced. Also, numerous analysts failed to see any stress in the test, and believe that the various scenarios that were used were too lenient. No matter what the conclusion of this report, the problem with global sovereign debt has yet to be resolved, and the current global currency system is faltering.

Recently, while reading the "Special Report Gold" from Erste bank, I noted a saying from Charles de Gaulle. And, I found it most appropriate. Evidently he said, ***"Betting against gold is the same as betting on governments. He who bets on governments and government money bets against 6000 years of recorded human history."***

It occurred to me that most people do not really know what government money is. All they know is that money is a medium of exchange, and the word fiat money has little relevance. However, when you understand that the current monetary system used by governments has no intrinsic value and is not backed by reserves, then perhaps you will be prompted to know more. Governments around the world have declared their currencies as legal tender and the value of this is simply established through a network of currency traders around the world.

As fiat money is not linked to physical reserves, it risks becoming worthless due to hyperinflation. This occurs when governments rescue themselves with the printing press, making their currency worth less and gold worth more. Gold has always risen the most when confidence in government is at its lowest. In the end when people lose faith in a nation's paper currency, the money will no longer hold any value.

A rising gold price signifies a failing currency

Historically, all systems of fiat currencies have ended in total failure while gold has always protected people's wealth when their country's monetary system has failed. As these fiat monies depreciate, it requires an ever increasing amount of monetary units to buy one ounce of gold. In the end, gold becomes the ultimate currency. When the price of gold increases, it acts like a barometer, measuring the relative value of global currencies. Central banks and governments do not like a rising price of gold because it signifies a failing currency system. They need strong currencies to reflect a picture of strength. This was the case with the US dollar for years. Holding US treasuries yielded good annual returns. And, as most of the commodities were traded in dollars, people had to buy dollars to buy these commodities. The dollar was king. But, this scenario is changing and prudent investors who understand these dynamics are protecting their wealth by diversifying into gold.

Last week, it was noted that during June, the Russian Central Bank (RCB) purchased another 200,000 ounces of gold. Their total gold reserves now stand at 22.8 million troy ounces... which is 709.2 tons. So far this year, the RCB has purchased 2.1 million ounces for their reserves. In the second quarter of this year, the central banks of Venezuela and the Philippines also bought gold.

TECHNICAL ANALYSIS



From the end of June, the price of gold has been stuck in a two-tier trading range. The higher level is set between \$1200/oz to \$1220/oz and the lower level is trading between \$1180/oz and \$1200/oz. In the short-term it is possible to see prices retreat towards the 200 day MA which is now at \$1144/oz, but I favour more sideways action. The price of \$1180/oz also represents a 38.2% Fibonacci retracement of the move that began in February this year and which peaked in June.



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