Market Update: Gold Futures unable to hold 1700

Comex Gold Futures on Tuesday settled below 1700 after breaking though the resistance during early Asian hours. It gave up the early gains on profit taking after touching a high of $1742.6 an ounce, an intraday level not seen since 2012. The benchmark June GC contract closed down -$13.4 at $1683.7

The $1700 mark had been difficult level for gold to break through. It has failed to break past the level on three attempts recently. Tuesday's peak at $1742.6 was the highest for COMEX gold since the $1,750 peak set in November 2012. Gold Futures had been rallying from the low of 1580 set on April 1st gaining more than $100.

Gold Futures gave up early gains yesterday as equity markets rallied on hopes that the virus peak is nearing. Gold had surged earlier on fears of another physical supply squeeze but eased off after three major gold refining plants in Switzerland, Europe's biggest gold refining hub, reopened on a limited basis after having been shut down for two weeks because of the pandemic. The shutdown had caused a squeeze for physical gold as gold dealers struggled to find supplies to secure deliveries of gold.

Gold as a safe-haven has gain traction as currencies are being devalued by massive stimulus programs introduced by central banks and governments around the world to alleviate the worst of the Covid-19 outbreak. This has also increased physical demand of gold to hedge against the debasement of fiat currencies thereby triggering a huge demand for gold ingots, bars and coins. There has also been an increase of funds buying long positions in gold ETFs which rose for an eleventh consecutive session Monday, a record 2,845.47 MT, the highest since the data series began in 2002.

Monday's global economic data was mostly better-than-expected and was bearish for gold. U.S. Feb JOLTS job openings fell -130,000 to 6.882 million, which showed a stronger labor market than expectations for a larger decline to 6.500 million. Also, German Feb industrial production unexpectedly rose +0.3% m/m, stronger than expectations of -0.8% m/m. In addition, Japan Feb household spending fell -0.3% y/y, stronger than expectations of -3.4% y/y.

The Washington Post reported that U.S. lawmakers are working on a fourth rescue package adding another $1 trillion to the fiscal deficit, to help prop up the economy and assist workers and small companies. That package comes just after a roughly $2.3 trillion recovery program known as the CARES Act was passed in late March. Such stimulus programs added to the bullish fundamental backdrop for Gold.

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Although the spread of the coronavirus had been bullish for Gold and the precious metals market saw decent gains in the previous month when central banks introduced massive monetary measures to stabilize markets. However, some analysts' have started commenting that the flush of liquidity in financial markets may be a double edge sword for gold as central banks may sell some of their massive hoard of gold reserves to raise cash. The Russian Central Bank, Kazakhstan and Uzbekistan have reportedly stopped purchases of gold.

A daily chart of June Comex Gold Futures.

Tuesday's breakout appears to be some sort of a bull trap. The long term trend is still intact after the recent rally had placed some life into gold bulls. Daily technical indicators are positive. The June Comex contract is supported at 1640 and 1580.

(Courtesy of Phillip Nova)

Structural Gold Drivers

Covid-19 has been supportive for Gold as a safe-haven asset as the number of unknowns about the spread of the epidemic remains large.

Financial uncertainty combined by low interest rates are bolstering Gold investment demand.

Fiscal and Monetary stimulus measures by Governments and Central Banks are underpinning Gold.

Net Gold purchases by Central Banks remain robust but cracks are appearing as some traditional net buyers of gold have stopped or reduce purchases.

On the other hand, expectations of weaker economic growth in large consumers India and China may result in weaker demand and act as a damper on prices

Market View: Fundamental bullish

With Central Banks increasing liquidity in financial markets, low interest rates and rising money supply are all factors that are bullish for Gold in the longer term.

However, the short-term view is very sentiment driven with traders reacting to news.

The coronavirus spread has not been totally managed and is intensifying in countries like the US and India where measures to contain the Virus have not been very effective.

Uncertainty continue to weigh on risk sentiment, which is positive for gold in the longer term.

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