Market Update: Gold supported by weaker Dollar and ECB stimulus

Benchmark Comex August GC Gold prices rose on Thursday as the Dollar Index weaken. Gold found support after the Euro climbed after the ECB increased its PEP Program. Weakness in the US stock market also encouraged safe-haven buying of Gold. Jobless claims data released came in about 2 million and reinforced the notion that recovery in the global economic recovery is still work in progress. The Comex contract closed up +$22.6 at $1727.4. Tocom benchmark JAU April21 Gold Futures were firmer in early Asian trade this morning, opening at 6005 yen/gram after settlement at 6005 yen.

The GC August futures had dropped to a daily low of $1690.3 before recovering above 1700 on Wednesday. Bullish recovery was followed on Thursday. Gold prices were lifted by the weaker Dollar Index which dropped to a new 2-1/2 month low. The EUR/USD found additional strength after stimulus measures by the ECB boosted hopes for a recovery in the Eurozone economy. The ECB added 600 billion euros to its Pandemic Emergency Purchase Program (PEPP) and extended the program from the end of this year to June 2021. The EUR/USD also moved higher after the German government passed a second coronavirus rescue package worth 130 billion euros ($145 billion). Expanded QE programs has been supportive of Gold.

The US labour jobless claims market data was bullish for gold. Figures released were weaker-than-expected. Weekly initial unemployment claims fell -249,000 to 1.877 million. The weekly continuing claims unexpectedly rose +649,000 to 21.487 million although expectations were for a decline to 20 million. Nonfarm payrolls data to be released this evening would provide additional information on the pace of recovery of the US economy.

On Tuesday, Pandora, the world’s largest jewellery brand, said that it will stop using newly minted gold and silver within the next five years to cut carbon emissions. The company said that recycling of metals uses fewer resources than mining new metals.

In the bigger picture, as stimulus is getting pumped into the global economy, together with questions raised over the smoothness in the reopening of key parts of the global economy, coupled with health experts reminding all that reopening too soon could cause more harm than good; could also mean that economic activity rebound could be pushed back later than sooner.

The demand destruction due to Covid-19 cannot be overstated, volatility in financial markets remains elevated and precious metals especially gold remains as good hedge in an investor’s portfolio of other financial assets. Gold remains as a safe-haven 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 increased investment demand of gold to hedge against the debasement of fiat currencies.
Technicals

Technical indicators on the daily charts are showing trajectories are flat or are turning lower. The 14day RSI is just below the mid 50 level suggesting weakness in the gold market. The MACD (moving average convergence divergence) index has also formed a mild downward sloping trajectory but it is not sharp. Most other indicators also point to retracing prices.

Immediate support is at the 50-day moving average near 1716 and at the psychological 1700. Next support lies at 1683 and the low of 1666.2, the higher hurdle above would be at 1776 and then 1800.

Daily Comex GC Gold August20 Futures

(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.

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

Overall the picture of Gold remains fundamentally bullish. Expectations of a V shaped recovery from the coronavirus lockdowns remain far-fetched. The long term fundamental drivers of Gold remain positive in outlook. However, in the short-run, gold prices seem to be reacting to headline news events and the technical picture has projected some consolidation ahead thus investors would be impacted by such risks. Although there are no absolutes in investing in precious metals, gold has historically been a good store of value over time, especially during extreme monetary and fiscal expansion.

Coming political and economic headlines should be supportive to gold as $1,800 becomes the next target.
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