

## Market Update: Stronger Dollar dents Gold price rise.

Comex GC Gold futures prices closed slightly lower on Wednesday despite central banks increased stimulus measures and concerns heightened over new coronavirus outbreaks. The Dollar Index strengthened and undercut gold prices as an increase in global Covid-19 cases boosted safe-haven demand for the Dollar instead. Gold prices traded mostly inside day within Tuesday's trading range with buying on dips supporting gold futures as investors turn their attention to geopolitical tensions.

The benchmark Comex GC Aug20 contract opened at \$1735.5 during Asian trading Thursday morning after settling -\$0.9 at \$1735.6 an ounce. Tocom benchmark JAU April21 Gold Futures opened lower on a stronger Yen in early Asian trade at 5951 yen/gram after closing at 5962 last night.

The dollar gained as global coronavirus cases boosted the safe-haven demand for the dollar more than gold. The Chinese capital city Beijing reported that new infections rose to 137 from 100 the previous day. The City scrapped more than 1,200 flights and said people would have to be tested for the virus before being allowed to leave the city. Coronavirus cases also increased in Brazil and India with increasing number of deaths.

Central Banks outlook on economic growth continues to be supportive of Gold. The Fed Chair Powell in his speech last night said that he favoured additional stimulus measures when he said the economy is at a "critical phase" and that additional Congressional stimulus would be "well-placed at this time." The Fed Chair had earlier on Tuesday said that there would be no hikes to interest rates in the near future and the Fed said it would start purchasing corporate bonds in the secondary market.

Rising geopolitical tensions between North and South Korea and border clashes between India and China have also caught the attention to gold investors. Although the Sino-India clashes have appeared to simmer down, tensions remain high in the Korean peninsula as South Korea warned the North against "reckless" provocations. North Korea earlier this week blew up a liaison office set up on the border between the two Koreas, and the General Staff of the North Korean People's Army said it would send troops to the area.

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.

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The demand destruction due to Covid-19 cannot be overstated, volatility in financial markets remains a concern 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 which are relatively flat. The 14day RSI is above the mid 50 level suggesting a market that has turned positive. The MACD (moving average convergence divergence) index is forming a mild downward sloping trajectory but it is not sharp but has yet to crossover.

Comex GC Aug prices are hovering around the 50-day SMA, suggesting a short term consolidation price pattern. Immediate resistance is at 1755, followed by 1776 and then 1800. Support lies at last week's low of 1671 and the low of 1580.

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.

Political and economic issues should continue to be supportive to gold as \$1,800 becomes the next target.

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