Gold Daily

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Market Update: Gold drops on Dollar strength after rising to one-week high

The Headlines

- US stimulus talks drags on, Gold's optimism on a US stimulus deal wanes in early Asian trading
- Dollar Index recovering from a plunge to a two-month low
- A jump in US inflation expectations supports Gold
- Gold may average less than $2000 in 2021 according to a Reuters poll
- Central bankers' comments continue to remain supportive for precious metals
- Palladium, Platinum and Silver rise on expectations of strong auto sales and industrial production

The settlement and early Asian Trade

Benchmark precious metals futures Wednesday closed higher with the Comex GC Dec20 touching a week high. The contract finally settled +$14.10 at $1929.5 an ounce. The Comex SI Silver Dec20 closed more than a 1% higher (+$0.261) at $25.241. Though both contracts opened softer during early Asian hours Thursday.

Precious metals trading in early Asian hours was generally "news event" driven in nature following a higher Wednesday's close. The Dollar Index recovered some of its overnight losses after Senate Majority Leader McConnell has warned the White House not to rush into any agreement before the election, taking the shine off the precious metals rally. The Dollar edged higher after American Intelligence officials said Russia and Iran have attempted to interfere in next month's presidential elections thru the spread of false information.

Asian Investors prepared for a rough session on Thursday amid fears that agreement on the key stimulus bill would not be reached until after Nov. 3. US lawmakers still had not reached an agreement on the relief package by late Wednesday. President Trump blasted Democrats accusing them of being unwilling to compromise. High level negotiations could face a setback after the blast and it is unclear whether talks would continue or go dormant. The president's tweet came amid deep opposition among Senate Republicans to the large bill.

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The Precious Metals Commentary

Despite hopes of a breakthrough in talks over settling differences on what should be the size and composition of the US fiscal stimulus. The bill has to be passed by election day early November by both branches of lawmakers. Senate majority leader Mitch McConnell had earlier warned the White House against a bigger deal. The Republican Senators are preoccupied with getting the confirmation of Trump's Supreme nominee, Amy Coney Barrett. Attention on passing the stimulus bill on the senate floor would only be after the confirmation. Any further delay in passing the bill would have a bearish bias on Gold.

Dovish comments from central bankers were positive for gold as a store of value. Fed Governor Brainard said the pace of labour market improvement is decelerating, and the economy needs strong monetary and fiscal help for recovery. She also said that she sees inflation remaining short of 2% over the next few years and failure by Congress to deliver more fiscal aid is a downside risk to the economy. Similarly ECB President Lagarde said the unexpected early second wave of Covid infections is a "clear risk" to the economic outlook. Also, ECB Vice President Guindos said the economic recovery is uncertain and incomplete, and if the stimulus is removed too early, it may harm the recovery.

A jump in inflation expectations is also bullish for gold demand as a hedge against inflation after the 10-year T-note breakeven inflation rate jumped to a 1-1/2 month high Wednesday of 1.749%.

Looking ahead, a Reuters poll predicted that while gold may average less than $2,000 next year as a record rally slows, prices could still touch new highs with continued stimulus, continued negative interest rates, the second wave of COVID infection spiking uncontrollably. Platinum and palladium could gain on a tentative recovery in the auto sector, the survey showed. Silver prices garnered support on signs of strength in China's economy with data released earlier in the week showing China Sep vehicle sales jumped +13% y/y.

There however appears no definite clarity on the continued shifting of positions on the stimulus relief bill which shorter-term traders can price into the precious metals market. Long term investors have shifted focused on what the November election outcome means for stimulus later, with a Democrat victory seen boosting gold's sentiment with a very large stimulus package.

The concern for precious metals traders and other financial market players had been the size of the fiscal stimulus package after the election. The key question is not whether there will be a fiscal stimulus from Washington DC, but the size and the timing of it. With Joe Biden leading over the incumbent, and with the event of the Democrats also taking control of the senate, a large stimulus package would be very likely pass before the inauguration of the next president in January.

The Big Picture

The key drivers of gold; real interest rates and the Dollar are expected to remain soft without concrete economic progress worldwide. The investment money would still be in Gold in the long term. Yet there had been the deteriorating short-term technical picture in the medium term and lack of actual current monetary stimulus to boost precious metals.

Ultra-low yields and negative real interest rates are however expected to remain as they are now for much longer, this should provide support for the gold prices in the long term. Central banks can be expected to continue to have major concerns about economic growth and not deviate from policies favourable for metals.

Daily Comex GC Gold December20 Futures

(Courtesy of Phillip Nova)

Market view: Fundamentally Bullish in the long term, shorter-term direction would be driven technicals and central bank monetary and other fiscal stimulus.

Though the fundamentals that have been pushing Gold remain unchanged, the policy framework of central banks may lead to a reassessment of the impact of structural market drivers that drove gold to record highs especially as central banks are reluctant to introduce new monetary stimulus measures.

With renewed strength in the US Dollar disappointing Gold Bulls, the sentiment has turned bearish in the short-term. Although recent major central banks statements and comments shows that they have major concerns about economic growth and that ultra-low yields and low or negative interest rates will remain as they are now for much longer. This would be supportive for the gold prices in the longer term. In the shorter term, however, with no new definite drivers with enough mojo that would be able to propel Gold to new highs beyond recent record levels, prices can expected to consolidate or fall.

Although the longer-term bullish fundamentals have not structurally change and central bankers have constantly reminded not to expect a V shape and quick recovery. There would be structural changes in Industries that would prolong recovery. This would serve as a constant reminder to investors that all is still not well with the entire world. Monetary and fiscal stimulus measures would still be needed to support growth and may be a key reason for believing in higher prices for gold in the long term.

Structural Gold Drivers have not changed

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. The central banks in August have been net-sellers though they are expected to be net-purchasers in 2020 due to accumulation earlier in the year.

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.

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