Market Headline: Gold steadies at 4-week highs after weak NFP

The Tuesday Morning Updates

- Gold prices stay elevated after a shocking low growth of U.S. jobs in August.
- The weak Non-Farm Payrolls (NFP) have sent bankers and investors alike back to the drawing board to recalibrate timelines on tapering QE programs.

Early Asian Trade

Gold was modestly lower this week in Asia in the mornings, yet staying elevated at a four-week high. A disappointing U.S. jobs report last Friday had indicated that the U.S. Federal Reserve could delay its asset tapering timeline, giving the yellow metal a boost. With the U.S. on a long weekend Labour Day break and the ECB policy meeting later this week, lack lustre volumes suggests that investors would rather stay on the side-lines after the initial positioning ahead of the ECB meeting.

The U.S. Labor Department reported on Friday that employers added 235,000 jobs in August, less than a third of the rough consensus of 750,000, indicating continued struggles with the coronavirus pandemic. The August unemployment rate had a little silver lining, it improved to 5.2% from July's 5.4%.

Investors continue to digest Friday's latest U.S. jobs report, which showed the NFP had the smallest gains in seven months. The Fed Chair Jerome Powell had in his Jackson Hole key note speech had made the U.S. labor market recovery a condition to begin asset tapering, investors now expect a delay in the central bank starting the process.

Comex gold futures for December delivery on Friday closed +$22.20 at $1833.7 an ounce whilst the Silver SI December contract closed +$0.884 at $24.802 an ounce.

Meanwhile, the Reserve Bank of Australia and the European Central Bank will hand down their respective policy decisions on Tuesday and Thursday. The RBA Interest Rate Decision is due at 1230 SGT with a consensus forecast of 0.10%. The rate has been constant this year.

Written By: Avtar Sandu
Rep No.: ASX100038851
Phone: (65) 65311509
Email: avtar@phillip.com.sg
pfpl_commentaries@phillip.com.sg

Market Commentary and Key Drivers Ahead

The weak NFP has also put the focus on the European Central Bank, the European bankers are expected to debate whether to scale back its stimulus at Thursday's meeting. Inflation in the euro area has surged to a 10-year high of 3%, prompting calls from the more hawkish members of the governing council for the bank to begin slowing its huge asset buying program. Yet as the region's PMI data have shown confidence in the recovery slipping, and there will be concerns about the single currency rising strongly if the ECB was to begin tapering before the Fed, and the impact that would have on exports.

The U.S. economy added back the fewest jobs since January last month as the Delta variant took a greater than expected toll. Non-farm payrolls increased by 235,000 in August after rising by more than 1 million in July, the Labor Department said Friday. Most economists were looking for 750,000. The report comes on the heels of disappointing reads on consumer confidence in retail sales as well.

By industry group, the U.S. services sector was a major contributor to the disappointing headline payroll figures. Leisure and hospitality employers added back a net zero jobs in August after adding more than 400,000 in July. Manufacturing jobs, however, were a bright spot, with 37,000 of these returning to build on a gain of 52,000 from July. A weak jobs report on the services sector does point a finger on the effect of the Delta variant.

The worse-than-expected August jobs report major setback for the COVID-19 economic recovery for the U.S. "A major speed bump," is how Bank of America economists summed up the report in a flash note to clients on Friday. "There are clear signs that the recent surge in the Delta variant played a key role in the weakness in the labor market."

"This (NFP) supports our view that the Fed will not announce taper at the upcoming September meeting. But it does still leave the Fed to provide additional guidance regarding the taper timeline, contingent on the data improving and getting past the recent weakening due to Delta. We still think a November taper announcement is in play but provided that the data bounce and the weakness, mostly due to Delta, proves temporary," Bank of America's team wrote.

Gold rallied significantly on Friday with the benchmark Comex December stopping at a 2-month high at $1836.9 an ounce just short of the resistance at $1839 level. With a weaker dollar and NFP, Gold prices had crossed the 200-day EMA but a significant breach of the $1839 resistance would warrant attention from investors. Although sentiment has been lifted after the weak NFP report, gold prices would again need to overcome the ominous $1839 resistance before more additional buying would emerge after the initial positioning after Jackson Hole.

The ECB meets this week, last week ECB Governing Council member Holzmann said that the ECB should discuss tapering stimulus at next month's policy meeting on September 9. The Governing Council member said the ECB should start debating how it will phase out its pandemic-era stimulus and focus on tools that would help achieve its 2% inflation target sustainably.

While major central banks such as the U.S. Federal Reserve and the Bank of England have signalled their intention to gradually unwind crisis-era aid, the ECB has stuck to its ultra-loose policy to cushion Europe's fragile rebound.

The Fed's next scheduled policy-setting meeting will take place roughly in 2 weeks on September 21 and 22. Before the Fed meeting, there are meetings of a number of other central bankers.

Market View

With the threat of inflation creeping in faster than expected, central banks like the Fed may also be expected to begin tapering its bond purchases before tweaking rates.

Although Gold has lost much of its appeal for investors in 2021 as compared to 2020 and the technical picture has deteriorated in favour of the bears rather than gold bulls, deep corrections of prices are still viewed as buying opportunities. Our market view remains bullish for the long term despite the pressure that prices had from rising global government bond yields, which had incidentally also helped the Dollar.

The price forecast for gold has been slashed lower as the return to last year's record highs is unlikely as economic recovery tarnishes the safe-haven metal's appeal especially in investment demand. Many analysts had revised their forecast for Gold to $1950 an ounce for the second half of the year from an earlier $2000.

Daily Comex GC December21 Futures

(Courtesy of Phillip Nova)

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