



Market Headline: Gold steadies while Omicron rattles financial markets

A Morning Market Commentary

Summary

- Gold prices rose overnight as countries impose restrictions,
- Fed policy must address range of plausible outcomes- Powell

Gold prices rose on Wednesday as bullion as a hedge against wider market volatility attracted buyers amid concerns over the impact of the Omicron coronavirus variant. The new variant has been identified in more countries. The United States on Wednesday identified its first known COVID case in a fully vaccinated person who had returned from South Africa.

February gold on Wednesday closed up +7.80, and March silver closed down -0.476. Precious metals on Wednesday settled mixed, with silver falling to a 1-3/4 month low while gold closed inside Tuesday's trading range. Lower T-note yield on Wednesday also supported gains in gold. Silver prices tumbled on concern that the lockdowns and travel restrictions countries are imposing to slow the spread of the omicron variant will undercut economic activity and demand for industrial metals.

On Thursday morning in Asia, Spot Gold was unchanged at \$1781.42 at 0800 SGT together with gold futures while silver futures were up moderately 0.031 at 22.370. The Comex GC contract for February Delivery on Wednesday had closed at \$1784.3 an ounce while the Silver SI March contract closed \$22.239 an ounce.

Feb gold rose to a high of \$1795.7 posting modest gains on increased safe-haven demand after news that the first case of the omicron Covid variant was found in the U.S. but retreated when the dollar index recovered from early losses and the greenback found support from a hawkish Fed Beige Book.

Meanwhile, Federal Reserve Chair Jerome Powell said with the U.S. economy growing strongly and supply-demand imbalances poised to persist in the near future, policymakers need to be ready to respond to the possibility that inflation may not recede in the second half of next year as expected. The Federal Reserve Chair Jerome Powell had taken a sharp and unexpected turn Tuesday towards tightening credit in the face of mounting concerns about high inflation. Powell signalled that the Fed will likely act more quickly to phase out its ultra-low-interest rate policies even as the emergence of the new omicron variant of COVID-19 has raised fresh doubts about the future of the economy and the direction of inflation.

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The sudden emergence of the omicron variant had led some Fed-watchers to speculate that the central bank would avoid any major policy shifts until a clearer picture of the variant and its likely impact on the economy emerged. But Powell's remarks Tuesday — and the questions he faced from senators — were far more focused on inflation than on the likelihood that omicron, about which little is known, could seriously weaken the economy.

From a technical perspective, gold futures dropped below the immediate support at 1780. Last week Feb gold attempted to pierce resistance at 1820 on Friday but prices had retreated on the global sell-off. The 200-day EMA also resides at that chart resistance. But before attempting again to break resistance, Gold prices have to reside above the \$1800 before progressing on. On the reverse, the break below \$1780 would not bode well for Feb gold as the support had found buyers for the last 4 trading sessions. Trading volume for the Comex gold contract was not as large as can be expected on a Fed commentary which may indicate that Tuesday move lower was a knee-jerk reaction to the Fed sudden turn in the face of a fast-spreading Omicron variant.

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