Publication: Afternoon Dispatch & Courier

Link: http://www.afternoondc.in/business-investment/bullion-prices-on-roller-coaster-ride/article_29649

Date: July 11, 2011

Coverage Page:

Coverage:

Bullion Prices On Roller Coaster Ride

Monday, July 11, 2011

Prithviraj Kothari
Managing Director, RSBL and current president Bombay Bullion Association, (BBA)

Comex gold and silver futures have rallied above unchanged price levels after trading slightly lower in earlier dealings. Gold is leading the way with solid price gains.

Traders once again "bought the dip" in precious metals prices on bargain-hunting. There remains safe-haven investment demand for gold and silver.

Gold and silver started July with sharp falls and then followed with a sharp correction; the recent news from Europe regarding Greece and Portugal will continue to affect the bullion market, but all eyes will look towards tomorrow and the ECB rate decision, which may have a strong impact on the Euro/USD and also gold.

Gold price continue to zigzag as it bounced back and sharply inclined on July 5 by 2.03 per cent to $1,512 - its highest price level since June 23. Silver also sharply inclined on Tuesday by 5.06 per cent to $35.41 - the highest price since June 22.

During July, gold prices increased by 0.7 per cent, and silver prices by 1.7 per cent.

In recent news, Moody's downgraded Portugal's debt. This news rekindles the concerns over not only Greece but also Portugal. Some speculate that these concerns are among the reasons for the rises in gold and silver and the depreciated of the Euro.

The problem with this theory is that historically, the Euro/USD was positively correlated with gold and silver; another problem is that the Euro/USD traded down on Tuesday, very moderately, while gold and silver rose very sharply. The recent rises might have something to do with a speculative move: whenever gold reached a low level in a given month, it usually inclined the following day. e.g. during June gold reached its lowest at $1,496 on June 27, the following two days gold inclined.

Spot gold prices closed almost 1.5 per cent higher Tuesday, mainly due to the re-emergence of Euro Zone debt worries which boosted demand for gold as a safe-haven investment.

Additionally, fears
yellow metal to rise on safe-haven demand. Rise in crude oil prices increased fears over inflation which fuelled inflation-led demand for gold.

Spot Silver prices also rose surged almost 4 per cent. Tracking gains in gold and upside in the base metals. The white metal touched an intra-day high of $ 35.65/oz and closed its trading session at $35.43/oz on Tuesday.

Overall, gold has risen sharply over last few days as concerns about global economy boosted safe haven demand.

However safe haven demand will also support US dollar limiting upside in dollar denominated gold prices. Meanwhile demand concerns will limit upside in crude oil.