Publication: Afternoon Dispatch & Courier

Link: http://www.afternoondc.in/business-investment/geopolitics-hits-demand-for-gold/article_30763

Date: July 25, 2011

Coverage Page:

Coverage:

Geopolitics Hits Demand For Gold

Monday, July 25, 2011

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

Gold set a new record high this week, and as the market and other precious metals moved higher, they tend to bring a lot of critics out of the woodwork. The words bubble and overbought have become linked to the markets in the news headlines. However, gold prices fell below the key $1,600 per ounce level in Europe on Wednesday, pulled back by profit-taking after a strong eleven-day performance, with investors also nervous ahead of a decisive Eurozone meeting on Thursday.

Spot gold was up $1.30 at $1,591.80/1,592.60 per ounce. The metal hit an all-time high of $1,610.30 in the previous session, before being caught in a wave of profit-taking and falling to an intraday low of $1,582.20 on Wednesday. Persisting uncertainty over the European debt situation, and the unresolved US debt ceiling issue are likely to direct renewed interest into precious metals. In contrast to gold futures, the spot gold price moved higher, due to the fact that following Tuesday's COMEX close, the yellow metal moved substantially lower. The rebound in gold futures coincided with weakness in the US Dollar Index, which dropped 0.6% to 75.075.

The dollar's slide was fuelled by a disappointing report on existing home sales. Indian traders said they were selling gold under cost at the local market. They added that the markets could not attract buyers as business activities had slumped to only 25% on unrest in the city. They said that street crimes and unabated violence in Karachi have badly affected the business activities as investors are shying away from sinking their capital into this gold business. They said there is anticipation that the gold prices will soon decline after showing a little more increase.

They said the local business of gold and silver is likely to grow after Holy Ramazan Gold also remained under pressure after some concerns eased over the threat of a US default. It fell nearly 1% in half-an-hour late on Tuesday after President Barack Obama threw his support behind efforts by a bipartisan group of senators to negotiate a new deficit-reduction plan aimed at averting a US debt default.

The first thing to keep in mind is that gold is far from being tarnished in the eyes of investors. Any reason for a strong sell off goes out the window when you take a look at the strong domestic and international demand for precious metals since 2008. Economic collapse and a lack of significant recovery have helped remind investors why metals are an option.

They cannot be manipulated or undermined by one central bank or nation's actions. Growth in industrial nations was sparked by disposable incomes allowing people to buy more jewellery – now it is led by people looking for a place to invest for asset preservation. There will probably be a genuine round of profit taking with every step higher in gold and silver prices. When these markets break fresh psychological price thresholds, there is always a reason to shake some longs loose.

The real support for these markets comes from the intrinsic value that investors are seeing despite those lower dips. For every seller at these prices another buyer appears. With so much