



PRITHVIRAJ KOTHARI

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

Euro Rise Could Trigger Gold Upswing

The prices of gold and silver changed direction and tumbled down last Tuesday and thus resume their downward trend from last week. The ongoing concerns regarding the fiscal cliff are likely to contribute to the volatility of precious metals in the weeks to follow.

The prices of gold and silver continue to zigzag as both metals tumbled down. Other leading commodities prices such as crude oil and natural gas also fell on Wednesday.

Gold prices closed under \$1,700 for the second consecutive day on the Comex division of the New York Mercantile Exchange last Wednesday. On Tuesday, the price of gold fell by 1.49% to \$1,694.4; Silver price also tumbled down by 2.89% to \$32.73. During the week, gold declined by 0.92%; silver, by 1.442%.

The focus of the US market place this week remained in the 'fiscal cliff' tax increases and spending cuts. This fast approaching 'fiscal cliff' is the most discussed issue worldwide as it will play an important role for all major markets.

US lawmakers are still jawboning on the matter, with the market place paying less attention to the politicians' rhetoric.

While the market place presently perceives odds are higher than not that there will be a last-minute agreement among US lawmakers to avoid the fiscal cliff, the overall situation has been a bearish drag on many markets, including the raw commodities and stock markets.

All eyes are glued on the much awaited FOMC meeting of the Federal Reserve to be held next week on December 10 and 11. This will be the last meeting of 2012 and major topics of discussion include The "Operation Twist" program that comes to an end and the FOMC members have to take a decision on the extension of the bond buying program.

There is a belief that the Fed will continue to purchase US treasuries and launch 'QE 4' at this meeting. If this happens then precious metals market tends to remain bullish.

Asian stocks rallied on news that Chinese government officials have said they want to stimulate their economy by implementing more construction projects.

Also, China's purchasing managers index showed further expansion in November. This news is an underlying supportive factor for the metals markets.

The Euro/ USD increased again on Tuesday by 0.31% to 1.3094. During the week, the Euro/USD rose by 0.83%.

The correlations among Gold, Euro and Aussie are still strong even though they have recently weakened during November and December. Thus, if the Euro and other risk currencies will rise again against the USD, they are likely to pull up gold and silver.

Moreover, there is lots of talk now in the market of 1670, 1660 or even 1650 dollars per ounce being the next target for gold. If all have the same view, it usually goes the other way round and we wouldn't be surprised to see a short squeeze higher this time, in order to stop daily shorts out.