

eGOLI Report

Volume 1 Issue 03

01 June 2009

Gold prices trending upwards...

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According to a World Gold Council's report released Wednesday, May 20th, gold demand rose 38%, to 1,016 metric tons in the first-quarter from last year, representing a 36% rise in value to \$29.7 billion. Evidently, this increase in demand came from gold-backed exchange-traded funds, gold coins and bars--products that are popular among precious metal hoarders.

Gold investment demand as gauged by increased holdings of exchange-traded funds, bars and coins, rose 248%, to 596 metric tons, year-over-year with a record investment into ETFs: up 540%, to 465 metric tons. Gold jewelry demand, meanwhile, slipped 24% as a result of high gold prices and downturns in consumer spending. India, typically the biggest consumer of gold, recorded a 83% drop in demand from a year ago. Global recessionary conditions also weighed on the electronics sector and industrial demand fell 31% from 2008's first quarter.

"There has been a seismic shift away from capital appreciation towards wealth preservation and we believe this trend will define investment behavior in the next decade," said Aram Shishmanian, chief executive of the World Gold Council.

The largest investor in coins and bars was Germany, where inflationary fears saw demand quadruple to 59 tons, while Swiss growth was even higher at 437%, taking it into second place at 39 tons. The US came in third, more than doubling to 27 tons as investors hedged against financial and economic risk.

To deal with the financial crisis, the U.S. Treasury and Federal Reserve have created billions of dollars out of thin air and pumped up banks, insurance companies and automakers and many other areas of the economy with those billions of dollars in stimulus and bailout programs.

Everyone knows that so many new dollars and such massive spending will lead to higher inflation rates. However, the effect of inflation is usually rising prices of goods and services and interest rates and weakening in the value of the currency being expanded and diluted. But, so far, that effect really hasn't been noticed or acknowledged. Housing prices in the US remain in a slump, auto makers and other companies are going bankrupt, factories are being idled or downsized, unemployment is rising, and shopping malls and other commercial real estate are in danger of default.

But, if you accept that the meaning of inflation is an increase in money supply, then inflation is already occurring. The Federal Reserve has nearly tripled the amount of credit since last September - new "money" injected into the financial system via various lending programs. We are no longer talking about billions but trillions of dollars in the biggest expansion of credit/money that the world has ever seen. And, it seems that the consequences of this massive increase in money and credit may be taking place right now. The U.S. Dollar Index

has given up everything it gained in the first two months of the year and has sunk to its lowest level in 2009. Crude oil prices have surged above \$60 a barrel, gaining more than 30% in just the last month. Bond futures are on a downward track, reaching the lowest levels since last November, meaning interest rates are moving higher as might be expected in an inflationary environment. And, gold has advanced about 9% in May.

In fact, gold is currently one of the few remaining major asset classes where a case could be made for it to rise in a parabolic fashion. Once the psychologically significant \$1,000 an ounce is breached convincingly, the speed of the move beyond that level could accelerate sharply.

While we may see more selling come onto the market at around \$1000 an ounce, right now, gold's demand is mainly financially driven as opposed to jewellery and/or industrial demand. Gold is experiencing unprecedented buying by exchange-traded funds, offset by substantially reduced jewellery demand.

Technicals



Technically, the 20 day MA is starting to point higher. Certainly we see solid support in the \$930/ \$950 ounce range and resistance in \$1,000/ounce range. If it breaks through \$1,000/ounce the next level could be \$1150/ ounce.

I believe that precious metals will continue their upward trend and a move toward \$1,000 is now within reach and should occur over the next few weeks. Support will come from growth in investment, which is beginning to be a more compelling reason to own precious metals.

If you think it is too late to get into this market, think again. Add gold to your investment portfolio.