

# eGOLI Report

Volume 1 Issue 03/4

15 June 2009

## The long-term prospects for gold still look very good

By David Levenstein - [South African Gold Coin Exchange](#)

The United States has become dangerously dependent upon the whims of foreign investors, to help finance its \$2-trillion budget deficit this year, and prevent a surge in long-term interest rates, which would otherwise, deal a devastating blow to the US-economy. If bond or currency traders detect that big investors in US-government bonds, - such as China, Japan, OPEC, Russia, and Brazil, have ceased to buy US Treasury debt, or worse yet, are becoming net sellers, it could spark a sharp slide in US-Treasury notes, sending yields sharply higher, and ignite a free-fall in the US-dollar. And, this would be another reason for gold to move higher.

The dollar rallied on Wednesday 10, despite news that Russia became more interested in trading \$10B of its positions in U.S. treasuries for IMF bonds. China had indicated the same preference in the amount of \$50B only a few days ago. The news should be an indication of future intentions by emerging exporting economies to diversify reserves away from dollar assets, which should offer pressure on the dollar, and if the traditionally inverse relationship between gold and the dollar continues, gold should benefit directly from any weakness in the US dollar.

The dollar has been in an overall downtrend since 2001-2002, and this longer-term down trending pattern seems well established and likely to continue. The Dollar Index which is a widely used index that measures the US dollar relative to a basket of foreign currencies has already dropped more than 30% since 2001. (The currencies in the Index include the Euro, Yen, Sterling, Canadian Dollar, Swedish Kroner and Swiss Franc). My point is, the fundamentals, indicate that the US Dollar is headed lower and gold is poised to move higher.

Crude futures rallied nearly 2% Wednesday to above \$71 a barrel, after ending above \$70 in the previous session for the first time in more than seven months. This is also helping gold move higher.

Gold should receive support from any weakness in the dollar, and recent reports of physical purchases by dealers in Asia also suggest that at least some consumers in price-sensitive regions find current prices appealing enough to buy.

The dollar once again will be a key driver of gold market activity. Indications that BRIC countries will sell U.S. treasuries in order to buy IMF bonds suggest less future demand for treasuries. It may also signal a desire for diversification of reserves, which could benefit all commodities due to strategic stockpiling. The market may receive support from investment inflows, a weaker dollar, and possibly from the elections in Iran if Ahmadinejad is reelected and taunts Israel further.

While the price of gold is extremely difficult to predict in the short-term, the long-term trend remains very clear. It is upward. For this reason it is important to include gold

in your investment portfolio. However, you need to decide if you want to invest in gold to 1) profit from the rapidly increasing price of gold or 2) as a way to preserve your wealth during these times of economic, political, and currency-based crises. Or perhaps it is a bit of both 1) and 2). And, it is important to access the risk you are prepared to take.

### Technicals



After gold bullion failed to break through \$1,000 for a third time, some analysts are looking at this as bearish and suggest that a pull-back to \$875 is probable. While it appears that there might be some short-term downside, there should be good support at \$935, \$920 and \$900, and the lower levels will merely be another buying opportunity.

One of the best ways to own gold is **Gold Bullion**. Physically owning the metal is the most direct and traditional method of investing in gold. Gold bullion is generally sold in two main forms, bars and coins.

Gold bars are available in various weights, generally ranging from one ounce to one kilogram. There are approximately 100 active gold refiners around the world whose bars have earned "good delivery" status from one or more of the associations and exchanges. Johnson Matthey, Pamp Suisse, and Credit Suisse are among the most popular.

Gold coins are another way to invest in physical gold. Priced according to their weight and purity, coins often carry a slightly higher premium than gold bars. Among the most popular are the South African Kruggerand and the Mandela coins.

Both gold bars and gold coins are priced according to their weight and purity, but they always carry a premium above spot gold prices.