Gold: A Reliable Performer in Times of Trouble and a Harbinger of Times to Come

NEW YORK (May 12, 2010) Jeffrey Nichols, Senior Economic Advisor to Rosland Capital (www.roslandcapital.com), had the following commentary based on recent market activity:

Last week's action on Wall Street and other world markets demonstrated anew gold's special qualities as a financial life preserver in tumultuous and uncertain times. With stock prices plummeting and the euro continuing to lose value as well as credibility, gold was virtually the only financial and investment asset to shine, continuing its recent sharp climb and breaking through the $1,200 level.

Because gold stands apart from other commodities as a monetary asset, it was practically the only commodity to gain in value during last week s market turmoil. It will continue to do so in the weeks, months, and years ahead.

While the equity markets have recovered following Sunday's announcement of the European Union bailout for its weakest members, lasting damage has been done. Investors were −− and remain −− shaken by last week's stock market volatility. Heightened volatility and uncertainty will continue to be a plus for gold for the next few months −− as some investors worry that the brutal 1000−point decline might again recur, like an earthquake, without warning.

Uncoupling From the Greenback

We've written in recent months that gold would progressively disassociate itself from the U.S. dollar's performance against the euro and against the popular currency indexes that many analysts use as a quick indicator of dollar strength or weakness.

Until recently, Europe's sovereign debt crisis sent money looking for a safe haven first into the dollar and then to a lesser extent into gold. As a result, Europe's financial problems pushed the dollar up, not only against the euro, but also against gold. But, week−by−week since early this year, gold's traditional inverse correlation to the U.S. dollar exchange rate has been diminishing −− and, increasingly, gold and the dollar have risen in tandem versus the euro.

For example, in the last week, the euro fell to its lowest level against the dollar in many months even as gold rose sharply, breaking through the $1200 an ounce level.

As the price of gold reached a five−month high against the U.S. dollar and inched closer to its record level of $1,227.50 it also scored new record highs against the euro, British pound, and Swiss franc. Gold's strong performance against these and many other currencies is a leading indicator of things to come.

More Quantitative Easing −− and Much More Money

Sunday's "just−in−time" agreement among European Union member nations to cobble together a nearly $1 trillion bailout package to stabilize the euro, bailout Greece and aid other almost−bankrupt nations has, at least for the moment, stabilized world currency, equity, and other financial markets. The plan includes a U−turn policy change for the European Central Bank (ECB), which will now begin to buy government and private debt on "dysfunctional" European markets.

Although the ECB said that its purchases of government and private sector debt will be "sterilized" so as not to affect the stance of monetary policy, it is likely that this will turn out to be the biggest program of quantitative easing in the history of central banking as the ECB buys and monetizes the largely worthless or nearly worthless public−sector and private−sector bonds of its weakest members. Even the U.S. Federal Reserve hasn't gone this far in its own program of quantitative easing.

On Monday, Wall Street posted its biggest one−day gain this year as world equity markets expressed a sigh of relief. And, at one point on Monday, gold was off more than $16 an ounce before regaining some of its lost ground. But the euro has barely recovered, suggesting that currency markets recognize the longer−term inflationary consequences of this bailout. If they haven't yet seen the writing on the wall, they soon will.

In the medium−to−longer term, this bailout, the loss of independence by the European Central Bank, the prospect of more rapid money supply growth in Europe and the inflationary consequences across the Continent are very positive for gold.

Physical Gold Buying Picks Up

It is notable that last week's gold buying came from virtually all quarters with strong physical demand around the world −− from both retail investors and institutions.

Bullion dealers and retailers reported increased sales of small bars and coins in Germany, Switzerland, Great Britain, and elsewhere in Europe. We've heard that Russian investors are buying small bars and old coins, following the lead of their central bank, which continues its practice of accumulating gold from domestic mine production.

Here in the United States precious metals retailers −− like Rosland Capital −− also saw a surge in demand for small bars and bullion coins. The U. S. Mint, along with other leading bullion coin minters, also enjoyed strong demand. Bullion coin premiums rose, reflecting a shortage of available supply.

Gold exchange−traded funds (ETFs) continued to see rising investor interest in the yellow metal. Physical gold held in trust for the 19 gold ETFs we track around the world rose on Thursday to an all−time high of 60.4 million ounces, a gain of over a million ounces from the week−earlier 59.2 million ounces. And, by the close of business on Monday, the NYSE−listed gold ETF alone reported total gold holdings at an all−time high just over 1192 tons (38.3 million ounces), a gain of more than three tons (over a million ounces) from just a few days earlier.

More on India

One notable exception to the rise in global gold demand was the price−sensitive Indian market where buyers have been reluctant to buy at the higher price levels of the past few weeks. But Indian investors and jewelry buyers are so far this year showing a tendency to adjust to higher prices more quickly than in the past.

Importantly for the world gold market, India dances to its own tune, with demand often reflecting domestic economic circumstances. We think India, despite the traditional price−sensitivity of demand, will be an important bullish factor contributing to a tight global supply/demand balance and rising world gold prices later this year.

Indian demand will soon pick up for several reasons: buyers will adjust to higher prices; rupee appreciation will mute the rupee−denominated price; seasonal festival−related buying will pick up in the next few weeks; fabrication requirements and inventories will grow ahead of the introduction the new gold medallions to be distributed through rural post offices; the Indian economy continues to recover smartly from recession; and,, later this year, the predicted monsoons and healthy harvests should boost income in the gold−friendly agrarian sector.

India's giant gold trader, MMTC Ltd. (which alone imported 190 tons , or over 6 million ounces in the fiscal year through March) expects its own shipments to reach 200 tons in its next fiscal year, owing in part to gold medallion fabrication . . . and, uncharacteristically, in response to higher prices, according to the company's chairman and managing director Sanjiv Batra.

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About Rosland Capital
Rosland Capital LLC is a leading precious metal asset firm based in Santa Monica, California and buys, sells, and trades all the popular forms of gold, silver, platinum, palladium and other precious metals. Founded in 2008, Rosland Capital strives to educate the public on the benefits of investing in gold bullion, numismatic gold coins, silver, platinum, palladium, and other precious metals. For more information please visit www.roslandcapital.com.

About Jeffrey Nichols
Jeffrey Nichols, Managing Director of American Precious Metals Advisors and Senior Economic Advisor to Rosland Capital, has been a leading precious metals economist for over 25 years. His clients have included central banks, mining companies, national mints, investment funds, trading firms, jewelry manufacturers and others with an interest in precious metals markets.

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