

# Equity Investment Advisers Gold Report



Tuesday, 03 July 2018

[www.equity.co.nz](http://www.equity.co.nz) E-mail: [Info@equity.co.nz](mailto:Info@equity.co.nz) Tel: +64 (9)304 0145

## Gold ETFs can Bounce Back if U.S. Dollar Slips

Commodities, including gold, are denominated in dollars, meaning that as the greenback strengthens, commodities often do the opposite. The inverse relationship between gold and the dollar has recently been on display.

Over the past three months, the Invesco DB U.S. Dollar Index Bullish Fund (NYSEArca: UUP) is up 6.4% while the SPDR Gold Shares (NYSEArca: GLD), the world's largest gold ETF, is lower by 5.7%. UUP tracks movements against a basket of currencies including euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc. UUP tracks the Deutsche Bank Long USD Currency Portfolio Index – Excess Return Index.

The strengthening U.S. economy is translating to a stronger dollar, which is often a problem for gold. Gold, like other commodities, is denominated in dollars, meaning it has an inverse relationship to the U.S. currency.

“Much maligned gold is set to stage a comeback as the dollar weakens, according to Pictet Wealth Management,” reports Bloomberg. “Bullion will climb to \$1,320 an ounce by the end of the year, said currency strategist Luc Luyet, which compares with about \$1,256 on Wednesday. While trade tensions haven't yet provided much support, an escalation combined with a slide in the dollar could lift prices, Geneva-based Luyet said on Monday.”

Other market observers are bullish on gold with some forecasting \$1,400 per ounce for the yellow metal next year, assuming the dollar weakens as other global central banks reveal tighter monetary policies.

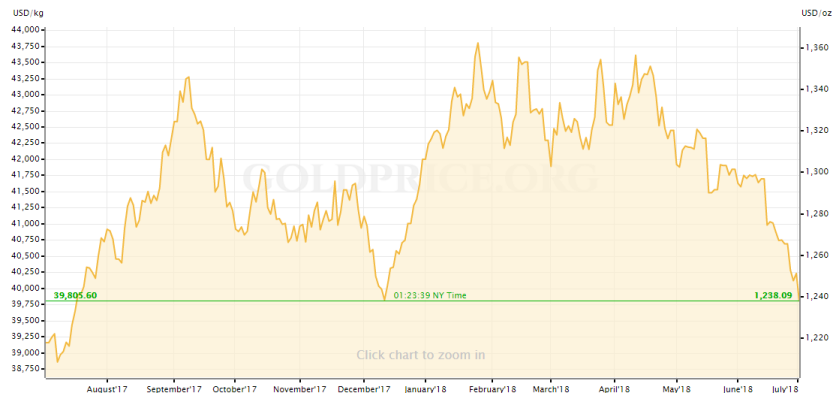
## China cuts bank reserve requirements to aid trade war against America

The People's Bank of China is to lower the amount of reserves that banks are required to have with the central bank; freeing up around \$108 billion (700 billion Yuan) for these commercial banks in a move to boost lending and help tackle debt repayments.

The central bank claims the decision was made to benefit small companies and to push a programme they have called the “debt-to-equity swap”. Under this scheme a bank can write off debt in return for equity, but some analysts believe the primary aim is to lessen the damage from the current trade war between China and the USA. By stimulating the domestic economy, they can absorb some of the losses from reduced trade with the US, and avoid any serious economic stagnation. The announcement on Monday came around the same time that President Trump tweeted demanding fairness in trade else they the repercussions.

The decision takes effect from July 5th, but the news hasn't had any immediate success. The PBOC acted before the US added their latest round of tariffs, meaning the latest rates weren't accounted for in this boost – or that the Chinese government are happy to take the hit. This has seen the value of China's currency, the Yuan, drop against the Dollar, and the Shanghai Exchange is listed as being bearish now, having lost value for a sixth week running.

## Gold Price



## Silver Price



## Gold To Silver Price Ratio



## The Dollar is a Source of Global Instability, says James Rickards

The dollar constitutes about 60% of global reserves, 80% of global payments and almost 100% of global oil transactions. So the dollar's strength or weakness can have an enormous impact on global markets.

Using the Fed's broad real trade-weighted dollar index (my favorite foreign exchange metric, much better than DXY), the dollar hit an all-time high in March 1985 (128.4) and hit an all-time low in July 2011 (80.3).

Right now, the index is 95.2, below the middle of the 35-year range. But what matters most to trading partners and international debtors is not the level but the trend.

The dollar is up 12.5% in the past four years on the Fed's index, and that's bad news for emerging-markets (EM) debtors who borrowed in dollars and now have to dig into dwindling foreign exchange reserves to pay back debts that are much more onerous because of the dollar's strength. EM lending has been proceeding at a record pace.

Actually, the Fed's broad index understates the problem because it includes the Chinese yuan, where the dollar has been stable, and the euro, where the dollar has weakened until very recently. When the focus is put on specific EM currencies, the dollar's appreciation in some cases is 100% or more.

Much of this dollar appreciation has been driven by the U.S. Federal Reserve's policy of raising interest rates and tightening monetary conditions with balance sheet reductions. Meanwhile, Europe and Japan have continued easy-money policies while the U.K., Australia and others have remained neutral.

The U.S. looks like the most desirable destination for hot money right now because of interest rate differentials. And that is having far-reaching consequences on EM economies.

Now that the Federal Reserve raised rates again last month, is the bottom in for emerging-market currencies? And is the top in for the dollar?

## The Quick Rundown: Swiss dump Dollars for Bars

- Switzerland has joined an international trend and jumped eagerly into physical gold (not that anyone should be surprised, they are Swiss after all).
- The Swiss government pension system has decided to change from paper gold to physical gold in its place, to a value of \$700 million.
- The original paper gold holdings, which were U.S. dollar-based papers, only accounted for 2% of the pension system's total assets, but the change still came as a surprise.
- Switzerland is believed to be hedging against future economic instability, especially in Europe, as the German economic colossus appears to be less robust than before.
- Furthermore, it may be keeping an eye on trends in the Far East, where Russia and China appear to be quietly preparing for a future where gold-backed economies may rule again.

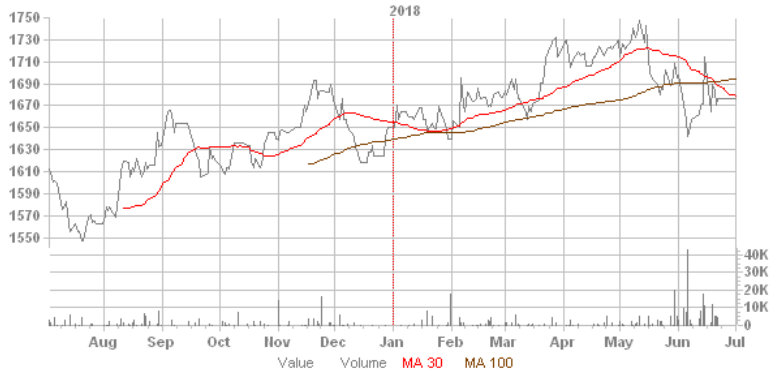
## You may also be interested in:

<http://www.mining.com/platinum-price-plunges-14-year-low/>

<http://www.goldtelegraph.com/deutsche-bank-economic-financial-chaos>

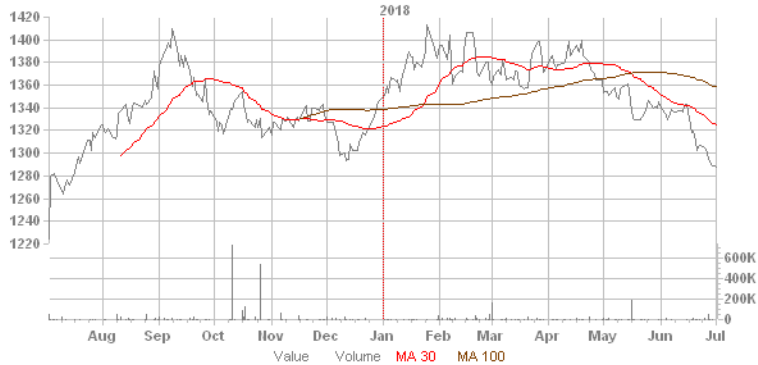
## ETF – Singapore Gold

ZGOL.ASX from 03/07/2017 to 02/07/2018



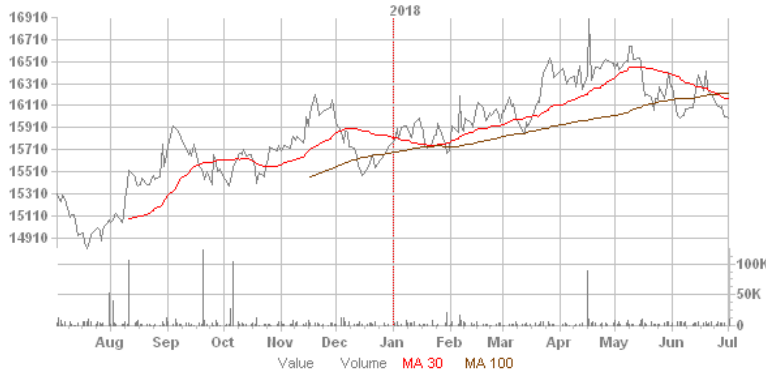
## ETF – Betashares Gold

QAU.ASX from 03/07/2017 to 02/07/2018



## ETF – Physical Gold

GOLD.ASX from 03/07/2017 to 02/07/2018



| Listing (ASX)    | Points | Percent. | Price AU |
|------------------|--------|----------|----------|
| Evolution Mining | 0.070  | 2.011%   | \$3.410  |
| Newcrest Mining  | 0.200  | 0.928%   | \$21.350 |
| Northern Star    | 0.150  | 2.086%   | \$7.040  |
| Rio Tinto        | 2.205  | 2.647%   | \$81.095 |
| South32          | 0.095  | 2.610%   | \$3.545  |

As at 5:00 pm NZT, 03 July

**Disclaimer:** The above information is provided on a best endeavours basis and Equity Investment Advisers Ltd does not accept any liability under any circumstances for errors or omissions. Parties should recheck the information before using it in any decision-making process. **Acknowledgements:** Equity Investment Advisers (EIA) sincerely expresses its gratitude to the following sources for the contribution of valuable information in the production of EIA gold reports: Kitco, BullionDesk, MoneyMetals, GoldSeek, Gold-Eagle, GoldSilver, MarketIndex, BullionVault, ANZ & BusinessDesk.

**Interested in adding Precious Metals to your portfolio? Contact Equity Investment Advisors today.**

**E-mail: [Info@equity.co.nz](mailto:Info@equity.co.nz) Tel: +64 (9)304 0145 / NZ: 0800 474 669**

**SHARECHAT**.co.nz  
NZ'S NUMBER ONE HOME FOR SHARE MARKET INVESTORS