

When It Comes To Gold Next Week, It's All About That...USD



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(Kitco News) - Gold is preparing to end its third week in positive territory but with prices down from one-month highs, damage has been done to the market's short-term momentum, according to some analysts.

June April gold futures last traded at \$1,251.1 an ounce, relatively flat from last Friday. However, silver has managed to outperform the yellow metal and is seeing strong gains for the third straight week. May silver futures last traded at \$18.275, up almost 3% from the previous week.

According to commodity analysts at Capital Economics, silver prices have surged as industrial demand in base metals has seen persistent strength.

According to one analyst, silver's outperformance could be a positive sign for gold in the long-term.

"Right now from a technical perspective, gold and silver are trading in no-man's land," said Mark Valek, fund manager at Incrementum AG, and one of the authors of the annual In Gold We Trust report. "However, I think we could see a move in a couple of weeks as I see silver's performance confirming gold's uptrend."

In the near-term, Valek said that until there is a breakout, gold and silver will remain stuck in their respective channels and continue base-building.

It's All About The USD

Many analysts have noted that gold's inability to break above its 200-day moving average or even break above February's high has been disappointing and could indicate that prices will test the bottom of its recent range next week.

"Gold has a strong inverse correlation with the U.S. dollar. Right now looks like the metals momentum has turned down," said Darrin Newsom, senior analyst at Telvent DTN. "I wouldn't be surprised to see lower prices next week."

Colin Cieszynski, senior market analyst at CMC Markets Canada, said that he also sees the potential for near-term weakness in the gold market and is watching the U.S. dollar closely.

"The price and momentum indicators suggest the price has peaked for now and is rolling over. Meanwhile, the US Dollar Index is bouncing back above 100.00," he said.

The U.S. dollar saw renewed strength this past week as a gaggle of Federal Reserve regional presidents have provided generally supportive statements on the U.S. economy, even if the outlook for future rate hikes remains mixed.

Analysts expect that data next week, including Friday's nonfarm payrolls report, to have the biggest impact on the U.S. dollar and gold prices. Early economist forecasts are calling for employment growth of around 200,000. A strong employment report would strengthen the U.S. dollar as it would support further rate hikes from the U.S. Federal Reserve, which in turn would be negative for gold.

Fed comments this past week have helped to raise market expectations for the next rate hike. CME 30-Day Fed Fund futures are pricing in a 55% chance of a rate hike in June; further out, markets are also pricing in a 55% chance of a third 25 basis-point move.

But Don't Count Out Gold Just Yet

Chris Vecchio, senior market strategist at DailyFX.com, said that he remains fairly constructive on gold as the metal has been fairly resilient in the face of a stronger U.S. dollar.

He added that the U.S. dollar and gold will be sensitive to U.S. deficit and budget talks that need to start next week. If Washington politicians aren't able to pass funding legislation to raise the debt ceiling, the government could shut down as early as April 28.

"The odds of a government shutdown are growing and I think this is going to weigh on the U.S. dollar," he said. "Political risks are keeping a strong bid under gold. Ultimately expanding deficits this year will put the country at risk of a downgrade and that will significantly hurt the U.S. dollar and drive gold higher."

Vecchio also said that seasonal factors could also support gold in a weak-U.S. dollar environment. He explained that historically, April is the third worst month for the U.S. dollar, behind December and September.

However, while he sees potential for gold, Vecchio said that he is waiting for a breakout before he jumps into the market.

"Right now, gold is trading in a wide range. To keep it simple: If prices break above \$1,264 then I am long; if prices break below \$1,194, I am short. Anything in between, I am sitting on my hands."

Levels To Watch

It's not just Vecchio who is watching \$1,264 an ounce, which marks the February high. Most analysts agree that this is the price level that needs to break on gold's journey back to \$1,300 and potentially new multi-year highs.

Valek said that while he is optimistic on gold, his firm is waiting for prices to break \$1,300 before they increase their bullish stance.

On the downside, most analysts are watching support at \$1,228 an ounce, which represents gold's 50-day moving average. Newsom said that a break below that would lead to a test of the next support level at \$1,210 an ounce.

Newsom added that as long as prices remain above \$1,198, the yellow metal's long-term uptrend, established at the start of the year, is



still in place.

"Ultimately, the charts show the long-term trend for the U.S. dollar is bearish and the long-term trend for gold remains bullish," he said.

The Final Say...

While next week's main event will be Friday's U.S. jobs report, there will be plenty of important data that could increase volatility in markets. Markets will receive the ISM manufacturing report for March on Monday while the service sector report will be released Wednesday. Also on Wednesday is the ADP private-payrolls report, which is used as a barometer ahead of the official government numbers.

The Federal Reserve will also release the minutes on Wednesday of its March monetary policy meeting. A hawkish tone in the minutes would be negative for gold because markets could start to price in more rate hikes than are currently expected.

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