MARKET UPDATE

Yellen, Rates and Upside Opportunity

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Last week saw silver fall 3.91% to $18.47/oz, its lowest level since June. Gold declined as well, dropping 1.71% to a one-month low of $1,329.70/oz. The selling pressure in the run up to Janet Yellen's speech on Friday may seem bearish but the reality is the latest trading action actually present opportune and but welcome entry points to get into both markets. The markets need to be put back into perspective but first, Yellen's comments on Friday need to be addressed.

Yellen and September Rate Hike

There was no major news to hit the market last week that would suggest the fundamental outlook for gold and silver had changed. This suggests that the negative sentiment was uncertainty ahead of Janet Yellen's speech at the Jackson Hole conference. Her speech was hawkish (which is what was to be expected - she certainly wasn't going to downbeat and paid a negative view of the US economy). She mentioned that the data was much improved and her belief that the case for an increase in rates has strengthened in recent months.

The focus was put on the next key piece of important economic data, this Fridays non-farm payrolls report which will be highly scrutinised to determine the odds of a September rate hike.

Whilst we will keep an eye on the jobs data this Friday, Yellen's comments regarding rate increases can largely be ignored. She is not going to be able to raise interest rates by more than 25 basis points in 2016, if at all. This isn't enough to stop a new bull market cycle in precious metals. In fact, there isn't much reason to believe that rising rates will be bearish for precious metals anyway. There is a fairly strong historical trend of gold prices rising along with interest rates.

But you don't have to go too far back in history to understand how gold might react to a hike in interest rates. The last time the Fed made a move, in December of 2015, not only did Gold end its 5 year bear market, it was followed by one of the strongest rallies the precious metals market has ever experienced ***[See monthly Gold chart below]***

Global Market Non-Growth

Global interest rates remain at the lowest levels in history, and the economic landscape is not changing anytime soon in Europe and Asia. The economic health in these regions will influence the monetary policies of the U.S. Additionally, the political landscape globally remains uncertain. The Brexit vote was a watershed event that could serve as a precedent for other European nations looking for a way out of the Union. At the same time, the most contentious presidential election in modern history will take place in the United States when voters go to the polls to choose between two very unpopular candidates, Hillary Clinton and Donald Trump. Precious metals thrive on uncertainty and the fear factor, which has abated over recent weeks, will return to markets sooner rather than later.

Whether the Fed raise rates in the short-term rate or not, Gold and Silver are set to rise further. Both are oversold on a number of technical indicators in the daily charts signalling a correction in the near term is likely.

2016
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
SMA (21, 0)
SMA (55, 0)
21.000
20.000
19.525
19.315
19.000
18.7385
18.000
17.000
16.000
15.000
14.000
13.000
MACD (12, 26, 9)
0.800
-0.133
RSI (10, 0.7, 0.3)
80.00%
34.58%
S Stoch (10, 10, 3, 0.8, 0.2)
80.00%
40.00%
14.07%

Conclusion

Markets rarely go up or down in a straight line. In 2016, gold came out of the gate and exploded higher. It took a while for the other members of its precious family to follow but follow they did. There have not been many speed bumps this year for buyers of precious metals. The summer doldrums have so far proven to be a breather for precious metals and they have been correcting. I view the current correction in precious metals as another opportunity to load up on gold and silver. The problem with buying precious metals for most investors is that one must step up to the plate and buy when they look the ugliest, and that is not an easy thing to do for most people. But it is the only way you will make a profit.