

Publication: Afternoon Despatch & courier

Headline: Gold A Bubble?

Edition: Mumbai

Date: 5th September 2011

Coverage



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Gold versus the Euro Zone

From the perspective of the average investor, precious metals are quoted in US dollars, but their influences are global. This week a lot of focus is falling to the Euro zone and potential debt issues with member nations.

Basically, the area is tied together in a way that makes the whole system very fragile. There are countries that are strong participants in the overall economy of the unified area and others that are threatening the foundation. Right now, Germany appears to be a leader on the strong side while Greece is among the weaker links.

Traditionally, the relationship precious metals have with members of the European Union (EU) is not unlike the one seen in other developed nations. There remains a strong pull to add gold and silver to central bank reserves despite the fact that there is no currency linked to the metals.

The majority of mining happens outside of the member countries so there is no real link to be seen there. The relationship at the moment relates more to the financial well-being of the area as a whole rather than any intrinsic link to one major player in the euro zone.

Gold futures advanced in the domestic bullion market on worries about Europe's debt crisis that boosted the demand for safe haven investment. Speculators are expecting that debt crisis in Europe may further spread as Fitch rating downgraded the Greece's credit rating and S&P placed Italy on a negative outlook from stable outlook.

Greece led headlines this week when its credit rating was lowered by Fitch Ratings. This comes after months of a financial struggle that has seen Greece get bailouts from the EU and the International Monetary Fund (IMF).

The Mediterranean country was not the only one getting support in dire financial times. Ireland and Portugal have also seen cracks in their fiscal façade, and they are widely believed to be next in line for ratings review by Moody's. Ratcheting down the ratings of two more member countries could spell disaster for the EU markets but good news for bullion bulls.

In addition, there are signs of weakness from Spain, Italy, and Belgium as well. That represents six countries from an area that is seventeen members strong - not a happy ratio. This has apparently added to investor concerns and shifted some focus for the last year. The European Union is racing to draft a second bailout package for Greece to release vital loans next month and avert the risk of the euro zone country defaulting. EU officials said on Monday.

Gold is down by 2.3 per cent so far, hovering below a lifetime high around \$1,575 touched last month. Although it has been a beneficiary of investor nervousness over Greece, it has struggled to retain gains.

Analysts said the yellow metal is likely to remain highly volatile as it is caught up between profit booking and euro zone worries that supporting gold along with a weak dollar.