

Gold turns higher as the dollar and US stocks weaken

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Gold turned higher on Wednesday as the dollar fell, US stocks dropped and a Federal Reserve president raised concerns about inflation expectations.

US stocks sold off sharply and a brief rally in beaten-down oil prices stalled after US data added to concerns about an over supplied energy market.

Spot gold was up 0.6% at US\$1,093.25 an ounce at 3:40 pm EST (2040 GMT), while US gold futures settled up 0.2% at US\$1,087.10.

“The downturn in equities helped push prices up in the latter part of trade,” said James Steel, chief metals analyst for HSBC Securities in New York.

Also late in the session, Chicago Federal Reserve Bank president Charles Evans said he was nervous about the potential effects of China’s slowdown on the US economy and about the possibility that inflation expectations may be slipping.

“Evans was erring on the side of fewer, not more, rate rises and that’s supportive of gold.”

The Fed raised US interest rates in December and attention has shifted to how many increases will follow in 2016. Rate hikes typically lower demand for the non-interest-paying metal while boosting the dollar.

“There is a tendency for gold prices to rise in the first few weeks of the year,” said analyst Georgette Boele at ABN Amro.

“But pressure will come back... and when wider markets get sold, you’d better buy the dollar, which is much more liquid than gold.”

Gold rallied to a nine-week top of US\$1,112 last week, but expectations of the dollar and risk-sensitive currencies recovered ground against the yen and the euro early in the session, after China’s central bank held the yuan steady and better than expected Chinese trade data helped to reduce some of the bearishness toward the world’s second-largest economy.

But with Chinese economic growth slowing and its stock markets vulnerable, analysts see it as unlikely that gold will lose too much ground.

China launched interbank gold trading at the beginning of this year as part of a broader drive to open up the country's bullion market and increase financial investment in the world's largest consumer of the precious metal.

Among other precious metals, palladium rose as much as 5.8% to US\$498 an ounce after sliding to a 5-1/2-year low of US\$449.55 on Tuesday.

"The market had become very oversold and was more likely to snap back," HSBC's Steel said.

Silver gained 2.6% to US\$14.15 an ounce, while platinum was up 1.7% at US\$846.24.

— **By Marcy Nicholson & Clara Denina**

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