



Is gold's jump suggesting Fed tapering won't happen?

GOLD, BUSINESS NEWS

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Gold has made a comeback over the last week hovering on the brink of \$1,300 an ounce supported by dovish comments by Federal Reserve Chairman Ben Bernanke and a sharp decline in the U.S. dollar.

Does the recent rally in the precious metal - that has gained almost 6 percent over the past week - signal that tapering is further off than initially anticipated?

"The price action in gold led the expectations of U.S. tapering. Gold broke down below important levels many weeks before U.S. yields started to rise and the taper talk became widespread," said Dhiren Sarin, chief technical strategist at Barclays.

"The fact that gold is now rebounding is a suggestion that some expectations of tapering are fading away," Sarin said, adding that the close last week on Friday was an encouraging sign that gold is gaining some momentum.

An improving U.S. economy has led to expectations that the central bank would begin scaling back its bond buying program as early as September or December.

But Bernanke's dovish remarks last week that the U.S. economy continues to need highly accommodative monetary policy for the foreseeable future have called these forecasts into question.

(Read More: [Bernanke: 'highly accommodative' policy needed for 'foreseeable future'](#))

"Bernanke's comments on July 10, in my mind, suggest that tapering is on hold. The stimulus is out there for longer," said Jonathan Barratt, founder of Barratt's Bulletin, noting that he expects tapering to begin in the first quarter of 2014.

"Hedge funds are becoming more long gold, they are starting to come back to the market. All of a sudden, people are saying if Ben's going to keep stimulus up, perhaps we have more concerns," he added.

Hedge funds increased their net long position in gold by 4.1 percent to 35,691 futures and options contracts, U.S. Commodity Futures Trading Commission data for the week to July 9 showed. In addition, since July 9, gold exchange traded fund (ETF) outflows have almost come to a stop, according to UBS.

Barratt forecasts if gold breaks above \$1,320-\$1,340, it may head back towards \$1,500.

Kelly Teoh, market strategist at IG Markets who believes gold has now bottomed, noted that, "Most people think tapering is off the table for this year. Expectations are for stimulus to continue, that means that the U.S. dollar is going to be weak, which is supportive for gold."

Bernanke's testimony on the economy to a House panel on Wednesday and a Senate committee on Thursday will be closely watched for fresh clues on the outlook for monetary policy.

Sarin of Barclays said he believes gold has either formed a medium term low, or is very close to forming one.

(Read More: [Three Reason Why The Gold Rally Will Fail](#))

"The maximum downside being \$1,030-\$1,080 area, while the upside can even go as far as \$1,600 in the next 6-12 months," he said.

"We think that gold can rebound more sustainably if inflation expectations rise; it is not just about U.S. tapering but also about greater global confidence, igniting inflation expectations," he added.

Dominic Schnider, head of commodity research at UBS Wealth Management, however, believes that the recent upside in gold is merely a technical bounce. He sees the yellow metal falling to \$1,150 in the next three months.

"Bernanke's speech was on the more dovish side. Will it change the directional trend of gold? I don't think so. Reason being, we continue to expect ETF outflows, there is no imminent need for gold in a portfolio," said Schnider, who expects tapering to begin in December.

(Read More: [Gold nears \\$1,300, but analysts say it's not a 'buy'](#))

"We're in a technical bounce, similar to the bounce we saw in April. I cannot rule out that we head to \$1,350 levels. But the technical recovery will run out of steam rather soon. Once \$1,350 is reached, people will exit," he added.

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