# PRECIOUS METALS AND THE U.S. JOBS REPORT

Wednesday, February 05, 2014

This week includes some big indicators, including EU and U.S. PMI reports, EU producer prices, interest rate and asset purchase decisions from central banks in the EU and around the globe, wage growth in the U.S., and the U.S. employment situation report.

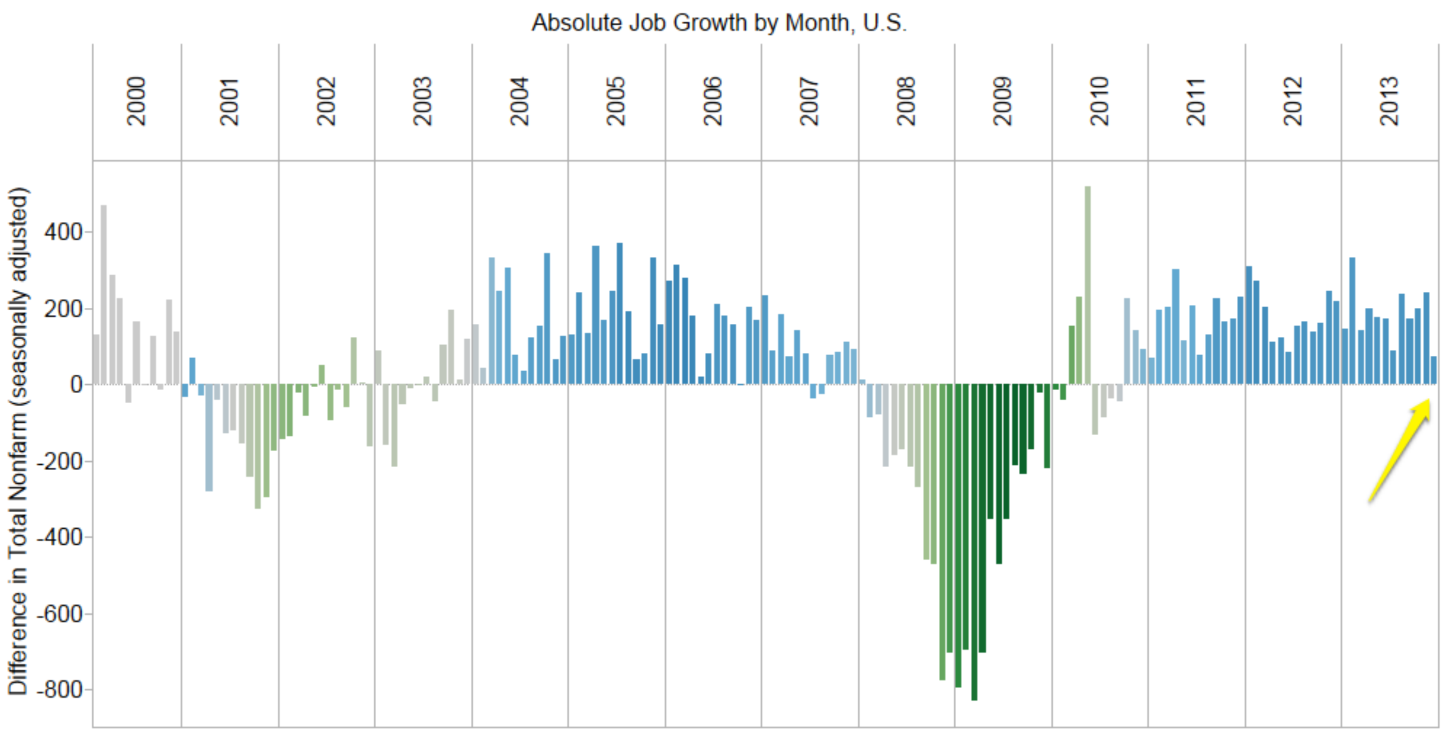
The last one – the U.S. employment report – is likely to move the precious metals markets the most this coming week.

What can we expect from Friday's report?

Here is a look at what U.S. job growth has been since 2000. The yellow arrow at the right points towards the most recent figure – a measly 74,000 net nonfarm jobs from November to December 2013. The 74,000 jobs was the lowest job growth figure in two years.

Labor market observers blamed bad weather for the slump. Because of this, market observers generally expect the job growth figure to rebound at between 150,000 and 175,000 jobs.

The question is – how will the precious metals markets react should the jobs figure come in much lower than expected or (unlikely) far above target?




Source: BLS

The first scenario is a U.S. jobs picture that is much worse than expected. Should the jobs figure comes in at 50K to 75K, the debate will likely turn to whether the world economy, not just the U.S., is in a mid-cycle slowdown as in 2006 or a peak as in 2007.

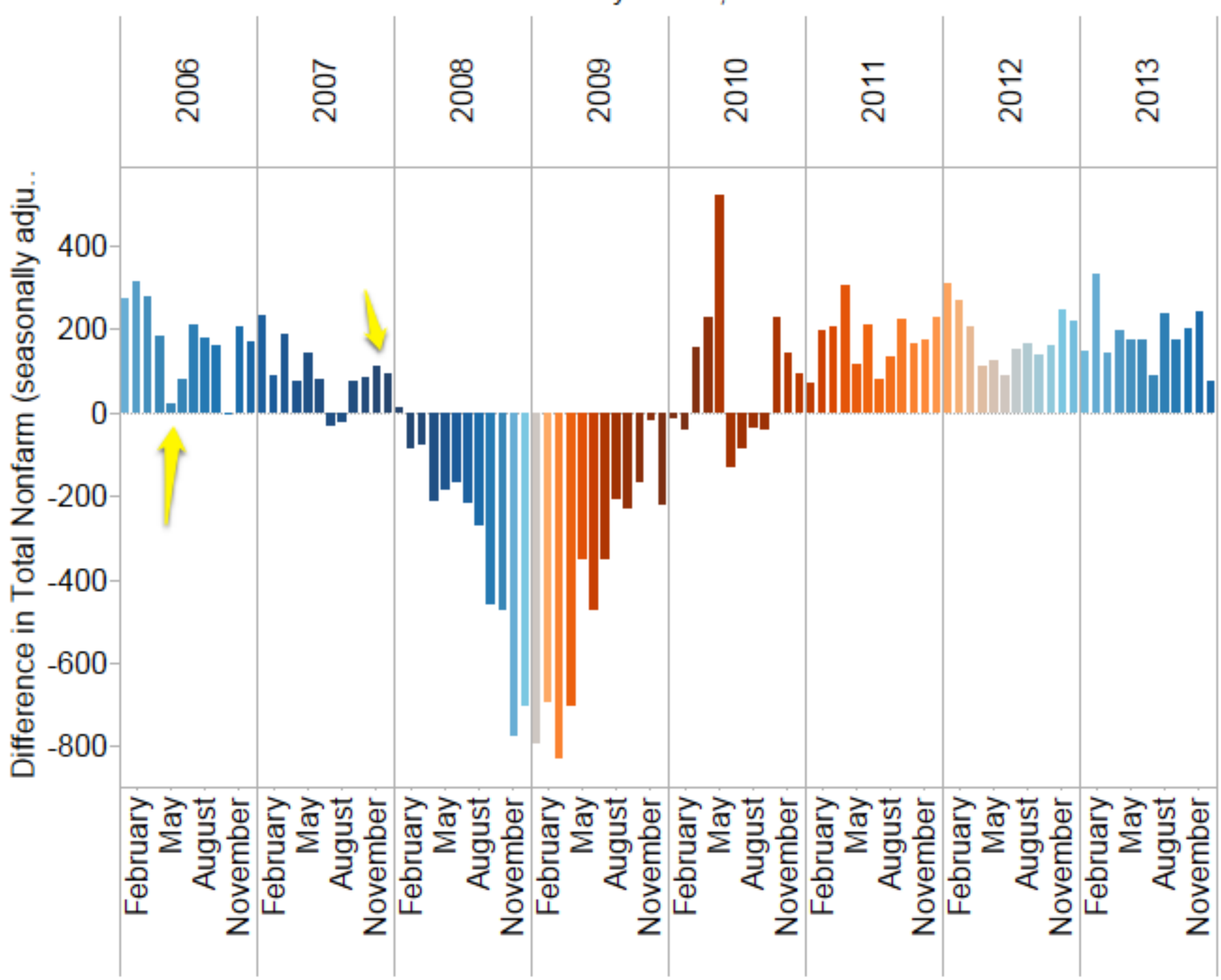
How will the precious metals markets react?

More than likely, precious metals markets will be bolstered by discussions of either scenario, in that the heightened risk of economic problems will boost demand for the assets that offer a store of material value – chief among these is precious metals.

The risk of economic problems also raises the risk of further monetary stimulus, which increases the risk of value-destroying inflation.

Precious metals should do quite well this Friday if U.S. jobs come in well below expectations.

Absolute Job Growth by Month, 2006 to 2013




Source: BLS

The second scenario is a U.S. jobs picture that is much better than expected.

How will markets respond to a 200K or more U.S. jobs number?

The answer is likely the same as if the labor market comes in well below expectations.

The reason why is that a very good U.S. jobs number – particularly in the context of the recent global data suggesting we're in the midst of a global slowdown – would likely indicate to investors that wage-induced high inflation rates are on the horizon.

Of course, there is a chance that high inflation could put downward pressure on precious metals in that investors may see a good jobs report as a sign that monetary stimulus is going away. This outcome is the less likely of the two possible outcomes in the strong U.S. jobs picture scenario.

With both very weak and very strong U.S. jobs numbers indicative of precious metals going up, what would cause precious metals to go down in relation to this Friday's U.S. jobs figure?

The scenario in which precious metals decline is if the U.S. jobs number comes in somewhere in the 100K to 200K range. The number would be around what analysts expect and provide little uncertainty or induced risk of high inflation rates.

Overall, the week ahead is packed with high-volatility indicators, chief among them the U.S. employment situation report. How will the precious metals markets respond to the results? Should the U.S. labor market report come in above expectations – above say 200K – precious metals may respond most positively because the markets may view the results as indicative of higher inflation. Precious metals markets may also appreciate if the U.S. labor market shows figures much worse than expected. Should the U.S. jobs figure comes in close to expectations, precious metals may have little reason to move higher.



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