PRECIOUS METALS
REVIEW AND OUTLOOK

Sunday, September 29, 2013

REVIEW

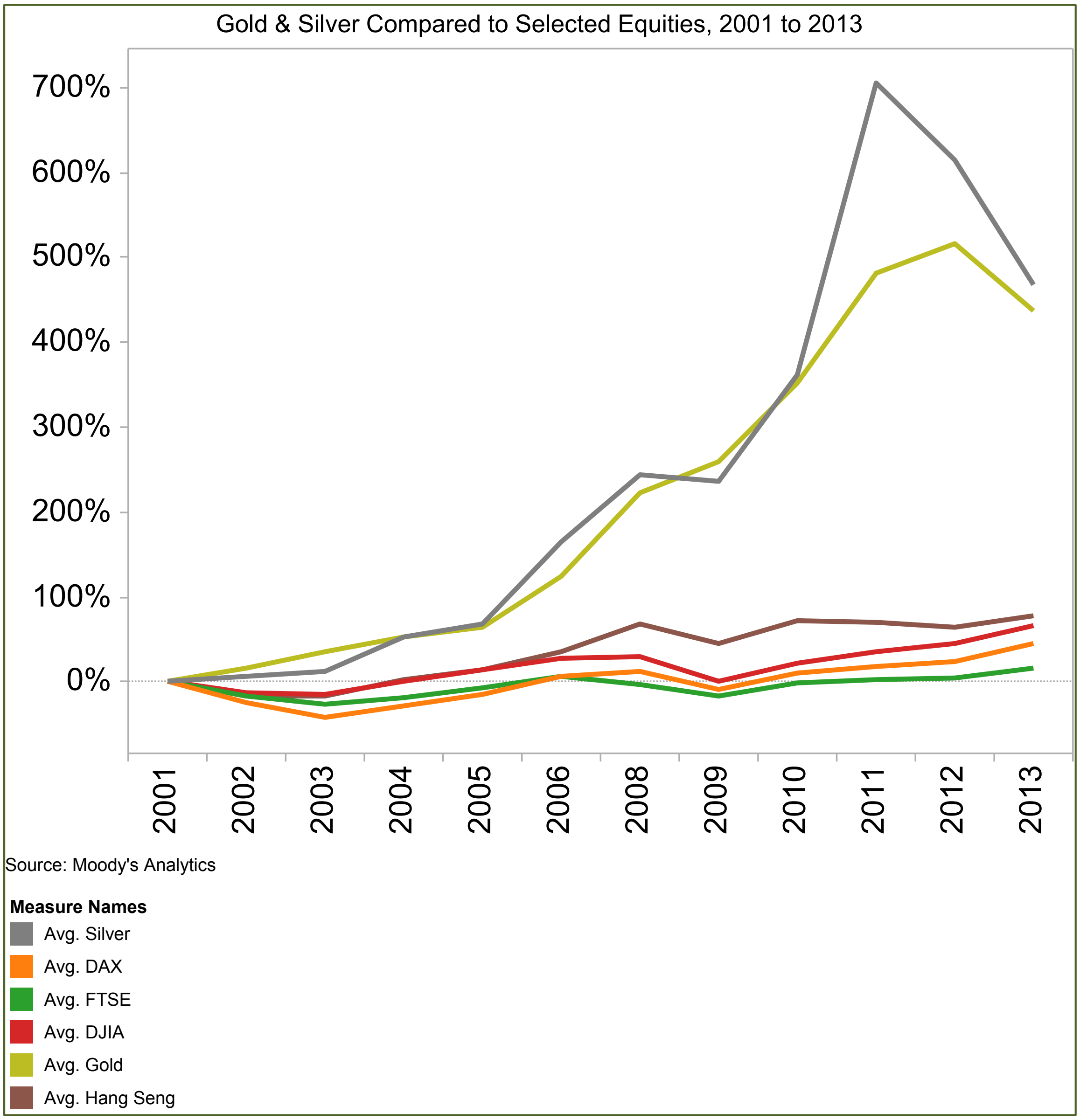
Precious metals started the week relatively soft, with gold, silver, platinum, and palladium all down through Tuesday. The precious metals markets then took their separate courses. Gold performed the strongest of the four; after Tuesday, the metal erased any loss it had experience earlier in the week. Silver, on the other hand, gained a couple percentage points in value on Wednesday and Thursday, only to give it back on Friday. Platinum holders experienced a similar story to gold. The difference between the two was that platinum holders' value was much more volatile, going up less than a 1% on Wednesday, and then losing that 1% on Thursday and Friday. Palladium also experienced strength towards the latter half of the week. After starting out the week down 2%, palladium slowly gained all of that back by week's end.

OUTLOOK

The week ahead contains many relevant economic figures and earnings releases.

Chief among the upcoming releases will be Friday's U.S. employment situation report, covering employment through September.

In addition to the U.S. employment situation, investors will be watching carefully for any indication on what the European Central Bank (ECB) might do on the monetary policy front. Analysts generally expect the ECB not to make any policy changes this week, but rather to consider options for later in the year.



Among the options is continued purchases of long-term interest bearing assets and lowering its short-term lending rate to be in line with the U.S. Federal Reserve. Inflation is higher in Europe than in the U.S., giving the ECB more to think about when it considers further easing. Interestingly, although European countries generally have higher inflation rates than the U.S., it is the U.S. central bank considering measures to tighten somewhat, while the ECB is considering measures for further easing.

In addition to these two discussion points, investor concern will likely place much attention on U.S. fiscal policy. According to some political analysts, there is around an 80% chance that the U.S. federal government will close its doors for the first time in 20 years in a couple of days. Interestingly, markets do not appear to have much downside risk priced into precious metals or equities. The lack of any risk premium associated with a federal government shutdown may change come Wednesday morning when markets digest a "no budget deal" situation.

GOLD

The outlook for gold largely depends upon how much risk aversion enters investors' minds in the coming week. With a U.S. federal government shutdown likely, further indications of easing by the ECB likely, and the Federal Reserve unlikely to provide any meaningful move to tightening, analysts generally give gold a couple of percentage points in upside bias. The positive outlook for gold would continue a long-term trend of gold outperforming most equity markets, as shown on the front page. It would also provide further evidence that the rough performance of gold during the first half of 2013 was only a hiccup in an overall environment of strength in this precious metal.

SILVER, PLATINUM, & PALLADIUM

Akin to gold, should risk aversion gain a greater hold on investors' minds, silver is likely to outperform. Overall, analysts give silver at least a 1% positive upside bias in the coming week. Analysts generally expect platinum and palladium to outperform as well, with upward biases of around half of a percent for both metals.