

14:38 27 Jul 2018

Bad news will be good for gold, as President Trump continues to prop up the price

The gold price was broadly rangebound at around US\$1,225 this week, caught between the twin American pressures of the US Federal Reserve and the US President. On the one hand, the Fed's well-flagged plans to raise rates in the second half of this year continues to exert downward pressure on the price, since the more the dollar yields the less rational it is to hold zero-yield physical gold. On the other hand, President Trump's unprecedented intervention in monetary policy, in which he stated publicly his opposition to a stronger dollar, has put a floor on the gold price, at least for now.

Trump's reputation for unpredictability and unwillingness to adhere to norms has given the market pause. Because while it's not clear, given the official independence of the Fed, how he could actually intervene formally in the rate setting process, markets have now learned to expect the unexpected. If President Trump wants a stronger dollar, and is willing to be vocal about it, you can be sure his opinions will be taken into account even if he's not at the table himself.

The creation of this type of uncertainty is what President Trump is good at, as it leaves opponents struggling to second guess him. And it's also good for the gold price per se, as the gold price is always stronger when there is an atmosphere of uncertainty around.

As it stands though, the conventional wisdom must be that the gold price is going to continue to weaken over the short-to-medium term, barring any catastrophic geopolitical event. The rationale is simple enough: the US economy is powering away, with some pundits now talking about growth levels at 4%, the best they've been for a long, long time. All told, that's good for Trump, but there's always a danger that current growth morphs into a boom which then delivers the concomitant bust as surely as night follows day.

The US Fed will regard one of its primary tasks as being to take every measure possible to avoid such a bust, and that includes slowing down reckless lending and unsound economic expansion by raising rates. That will make the dollar stronger, which in turn will put up the price of US exports, the very thing that Mr Trump is railing against. But any level-headed political strategist would argue that sustaining the current boom at the price of a dropping away of exports is worth it in anyone's book, especially if it goes to securing Mr Trump's re-election for a second term.

On that analysis, Mr Trump will talk tough about a strong dollar in order to keep in touch with his supporters amongst US exporters, but in the end he will shy away from firm action. So the downward pressure on the gold price will gradually reassert itself and before too many more months are past the price is likely to slip below the US\$1,200 mark.

Of course, there is always a chance that a geopolitical crisis does blow up, and that markets panic and stampede into gold. The two areas of greatest concern are Russia and Iran, with Iran the least predictable of the two, given the country's theocratic regime and its ability to influence the oil market. As escalation of tension could move gold up a few points, but the mobilisation of one of Iran's many proxy militias in the Middle East against US or US-allied targets could be the real trigger.

Already, the Houthis are striking against Saudi targets in the Yemen. In Lebanon and on the Israeli border, Hezbollah remains a force. And the chaos in Syria continues to draw in Russians, Iranians, Israelis and all sorts of others. The potential for a foreign affairs beginner like Mr Trump to make a mistake is large.

In that sense it just might be that the only really good news for gold will be bad news.

Proactive Investors facilitate the largest global investor network across 4 continents in 4 languages. With a team of analysts, journalists & professional investors Proactive produce independent coverage on 1000's of companies across every sector for private investors, private client brokers, fund managers and international investor communities.

Contact us +44 (0)1202 770386 action@proactiveinvestors.com

No investment advice

Proactive Investors is a publisher and is not registered with or authorised by the Financial Conduct Authority (FCA). You understand and agree that no content published constitutes a recommendation that any particular security, portfolio of securities, transaction, or investment strategy is suitable or advisable for any specific person. You further understand that none of the information providers or their affiliates will advise you personally concerning the nature, potential, advisability, value or suitability of any particular security, portfolio of securities, transaction, investment strategy, or other matter.

You understand that the Site may contain opinions from time to time with regard to securities mentioned in other products, including company related products, and that those opinions may be different from those obtained by using another product related to the Company. You understand and agree that contributors may write about securities in which they or their firms have a position, and that they may trade such securities for their own account. In cases where the position is held at the time of publication and such position is known to the Company, appropriate disclosure is made. However, you understand and agree that at the time of any transaction that you make, one or more contributors may have a position in the securities written about. You understand that price and other data is supplied by sources believed to be reliable, that the calculations herein are made using such data, and that neither such data nor such calculations are guaranteed by these sources, the Company, the information providers or any other person or entity, and may not be complete or accurate.

From time to time, reference may be made in our marketing materials to prior columns and opinions we have published. These references may be selective, may reference only a portion of a column or recommendation, and are likely not to be current. As markets change continuously, previously published information and data may not be current and should not be relied upon.