proactive
UK: +44 (0)207 989 0813
NA: +1 646 896 3065
AU +61 2 9280 0700
action@proactiveinvestors.com

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