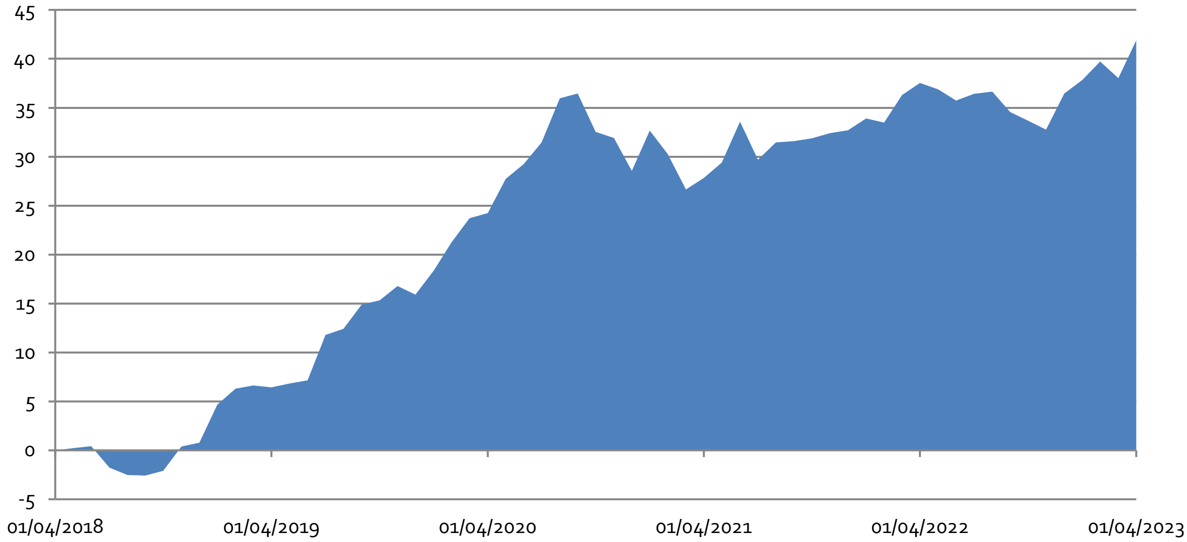
RIO ARC BULLION ACCOUNT USD



Will the Fed hike again on the 3rd of May? Last Friday, the Federal Reserve chairman commented that he desired more monetary tightening, despite evidence that inflation in the United States was steadily coming off the highs of recent months.

For many reasons, including the recent comment above, I feel that they don't look set to hit pause on rate hikes just yet, but that said, a pause for sure is drawing near. When they do push the button, and pause, it will almost certainly charge the narrative in commodities such as gold. Inflation and recession prospects counteract the demand for raw materials such as oil and gold. The Fed chairs comment drove a short-term sell-off and correction in gold prices and the yellow metal looked on track to a new record peak until Thursday.

Those invested may be interested to note that, as usual, I sold into gold's rally-taking profits. After all the metal had gained more than $50, or over 2.5%, in just three sessions to Thursday's close. As Steve J, one member, commented, no one made a loss taking a profit. The Fed comments caused the most significant one-day decline since a 2.1% fall on March 31st.

Any increase in interest rates tends to benefit the Dollar and weigh on gold. In short, a chance to buy is likely should the Fed hike rates next month; after all, the yellow metal is insurance against economic and political troubles.

Last week's Fed comments gave the dollar some reprieve, it had been driven down to a one-year low. Looking back, The Fed has added 475 basis points to rates over the past 13 months, moving the rate to 5% from the 0.25% which was the level at the start of the COVID-19 outbreak in March 2020.

Prior to the recent comments from the Fed, many economists had begun to agree that the Fed were likely to hit the pause on rates at their next policy decision on May 3rd. CPI aside, according to a separate reading on inflation, US wholesale prices fell their most in nearly three years last month. My comment is that a 25 basis point hike on May 3rd is likely despite the easing inflation. This because of the US jobs report for March, which saw non-farm payrolls growing by almost 240,000 versus the Fed's desire for the growth of less than 200,000.

While policymakers worldwide typically celebrate seeing good job numbers, the Fed faces a different predicament. The central bank wishes to see an easing of labour conditions which look good, but maybe too good given the backdrop, unemployment is hovering at a 50-year low and average monthly wages have risen without check since March 2021.

It must be pointed out that the excellent job security and earnings in the US have cushioned many Americans from the worst price pressures since the 1980s, this in turn encourages people to spend, but spending adds further fuel to the inflation fire.

The Fed governor has commented that he would welcome signs of moderating demand, but until they appear, and he sees inflation moving meaningfully and persistently down toward our 2% target he will not change his current track - that to me suggests another rate hike.

Gold

The gold price was hit by Fed comments on Friday, those who buy, hold, and are extended on the yellow metal witnessed their most significant loss in three weeks. That's why traded physical gold products such as the ARC Bullion Account is always a better prospect, active trading irons out the chop and it is almost always less volatile.

The Fed comments, however, have raised the risk that the Fed could do more tightening beyond May and that rates might need to stay higher for longer. Although that will drive gold lower in the short term, it will also cause economic pain, which in turn will support a bullish case for gold long term.

The bullish momentum will take its lead from the shinny metals ability to defend the recent support levels of $1,990 and $1,985, failing which a further decline to towards $1,950 is likely - I hope to be able to buy back in at $1,940, having sold at $2,042.

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