Gold's rally paused following the Fed announcement on rates, on the flip side, Jerome Powell's comments added fuel to risk sentiment!

Global stock markets were given some reprieve following Fed Chair Powell's comments; at the time, the remarks suggested that the Federal Reserve was done hiking rates, my comment at that time was simple "that may or may not be the case". But Powell's message had helped lift sentiment across markets; in fact, the Fed's comments were welcome news against a backdrop plagued by geopolitical concerns, and sharply rising Treasury yields driving the risk of economic weakness and a mixed earnings season.

During this time, the risk sentiment in equities had improved, but the Federal Reserves statement that they might be done hiking rates did little to improve sentiment in the Gold market, this as Bullion had already enjoyed a strong rally in a short space of time, it was basically already over bought.

Strong central bank demand to continue

Upcoming bullion price strength will come from central bank demand, given recent statistics 2023 is almost certain to become a record year. If I am proven correct this will be the second consecutive year in which bullion has witnessed strong central bank demand. I would underline that this is the main reason why Gold has not behaved as most had expected. Time has now proven my forecast to be accurate, the metal rallied to a near-record high despite surging US real yields, higher holding costs, heavy ETF selling and a strong dollar.

Gold did not move back above $2,000 on the back of recent Fed comments because bullion had already rallied significantly. The unrest in the Middle East had initially triggered gold's rally, but the upside had been supported by wrongly placed short sellers in the futures market.

It is interesting to note that the Fed's announcement was given little to no credence by the precious metals market; metals remained relatively subdued due to the prospect of a peak in rates and I would draw members attention to the fact that such an announcement would normally be supportive for these metals. The main point to me is that the Fed were not ready to cut rates just yet, and they may even hike once more before we inevitably see a true pause followed by rate cuts.

Gold will almost certainly rally on a clear cut announcement on lower rates!

The Fed are coming under pressure to halt rate hikes and the US housing sector is now sounding the alarm bells on further rate hikes. Recently the Mortgage Brokers Association, the Association of Home Builders, and the National Association of Realtors jointly called on the Fed to halt their hiking.

The Fed comments on higher for longer may actually mean higher until something breaks. Another hike and it could well be the US housing market, which breaks first.

BRICS countries are also reducing their reliance on the US dollar as a primary reserve asset, many have turned to Gold. A recent report from the World Gold Council revealed that central banks led by China bought 800 tonnes in the first nine months of this year, the Chinese and BRICS nations are clearly accelerating their combined resolve to reduce their current US dollar reserve holdings. Gold purchases have increased 14% year-on-year; should the fourth quarter numbers be strong, then the record set in 2022 could be breached.

The greatest threat to the US dollar comes not from abroad, but from the US Treasury itself. Simply by seizing the assets of the central bank of Russia, the US has weaponized the dollar, in turn this has caused other countries to seek alternatives and many have turned to Gold. Nations who are not aligned with the US, and or their politics pondered over the obvious question: “What if the US doesn’t like our policies or actions in international affairs?” “Will they then seize my central bank assets too?” China, India, and Brazil decided the answer would likely be “Yes” and they immediately started selling off their holdings of US Treasury debt and began to pay for imports in their own currencies. This is another positive for gold.

Gold today

As I write Gold has moved higher and it looks like we are headed for a strong weekly performance. The main driver pushing the metal higher was data showing that US jobless claims had grown more than expected for a fourth straight week, a clear signal that there's cooling in the labour market. Both the dollar and Treasury yields tumbled after the reading.

Conclusion: Gold is a buy on correction.

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