

**MAIN TOPICS**

- Greece continues to dominate financial markets.
- Finance ministers due to meet on Monday.
- Annual demand for gold in 2011 hits 4,076.1 tons.



20 February 2012

Gold prices remained mostly flat during last week as the price of the yellow metal continued to flirt with \$1730 an ounce level. Greece continued to dominate headlines as the approval of the second bailout was once again delayed and these continual deliberations contributed to the lacklustre performance of gold as traders remain wary of taking on new positions.

Finance ministers delay the approval of a bailout package for Greece.

The Eurozone finance ministers delayed the approval of a crucial bailout package for Greece even though they have been negotiating with Greece for several weeks. The package of 130 billion euros in fresh loans and a write-down on privately held government bonds worth 100 billion euros is needed in order to avoid defaulting on debt owed on March 20.

Last Wednesday, European Union officials made it clear that they were stepping up surveillance of Greek state revenues and expenditure, with snap elections a cause for doubt about how reforms will be carried through.

Dutch Finance Minister Jan Kees de Jager went a step further, warning the bailout may be delayed until after the vote.

"Ideally after the elections, you want to deal with rulers that you know will give their support to the package," De Jager was quoted in an interview with the influential Dutch financial daily *Het Financieele Dagblad*.

The Greek Prime Minister, Lucas Papademos, stated that he was confident that Greece would receive the approval from the Euro group on Monday but, judging on what has happened over the last few weeks, this may not occur.

Finance Minister, Evangelos Venizelos, said. "Other issues, technical but basically political, will be prepared at a euro working group in Brussels on Sunday."

"This will in good time lead to a final decision" on the approval of the Eurozone bailout and a "public announcement" on a debt swap with private creditors worth 100 billion euros on Monday, the minister said.

In the meantime German finance minister, Wolfgang Schaeuble, has reportedly called for Greece to be allowed to default. Chancellor Angela Merkel is firmly against such a development, according to press reports.

"Schaeuble doesn't think the Greeks can deliver any more [austerity measures]," an official from Merkel's CDU party told the *Financial Times*. Schaeuble has also this week suggested Greece should postpone general elections scheduled for April and install a technocrat government.

Eurozone finance ministers are due to meet on Monday to discuss Greece's second bailout, with Germany, the Netherlands, Luxembourg and Finland – all rated AAA by ratings agencies – calling for increased permanent supervision of Greece's fiscal affairs.

The German parliament is expected to vote on any bailout deal on February 27. If enough members of Merkel's coalition government oppose the measure, she may need to rely on opposition Social Democrat and Green votes.

As I have repeatedly mentioned, I doubt that Greece will ever be able to pay off these loans as the economy is unlikely to expand at the appropriate rate. And, you cannot burden people with more taxes and austerity measures if they cannot find work. It is the individual that provides the wealth, and the government that takes it. Throughout history, politicians have managed to destroy economies and societies so I don't see that they are suddenly going to be any different this time around.

Annual value for gold demand in 2011 posts and 29% increase above 2010.

In the meantime, in their report Gold Demand Trends for the year 2011, the World Gold Council (WGC) reports that the global demand for gold grew by 0.4% last year to 4,067.1 tons. According to the report, in 2011 the annual value for gold demand was a record US\$205.5 billion which was an increase of 29% above the 2010 value.

While global jewellery demand of 1962.9 tons was some 3% lower than the demand in 2010, investment demand grew by 5% to a record 1,640.7 tons. According to the report, "demand for gold bars and coins remains healthy and growth in gold coins in particular was responsible for much of the year-on-year increase in Q4 investment. Bar demand was unable to sustain the elevated levels of Q4 2010, but nevertheless remained well above the 240.3 ton average of the previous 8 quarters. On an annual basis, 2011 bar and coin demand surged 24% to 1,486.7 tons largely due to the growth in demand for gold bars. Growth in bar and coin demand was geographically widespread, with healthy gains noted in countries in all regions."

During 2011, central banks also stepped up their buying of gold. The World Gold Council reported that some 439.7 tons of gold was purchased by central banks, the highest figure since 1964. The WGC said. "The net buying trend which started in Q2 2009 has proliferated as emerging market central banks have continued to add gold on increasing concerns about the creditworthiness and low yields of their existing reserve assets."

While the USA and Western Europe struggle to deal with the changing global dynamics and refuse to see and accept these changes, they will continue to blame everyone else for their downfall. They will imprison their own people as they have done in the past by imposing capital controls, higher taxes, and impose a series of measures that will erode their citizens' civil liberties. While nothing catastrophic is likely to occur overnight, and while it is difficult to predict when the end game will occur, it just makes prudent sense to protect one's wealth.

Our entire global monetary system is looking more precarious month by month, and financial leaders are yet to find any solution. And, one thing for sure, it is not going to get any better in the foreseeable future, but instead it is only going to get worse. It is important to own tangible assets in such times, and of course, gold has endured the test of time and has proven to be an effective preserver of wealth. And, once again, it will prove to be just that.

TECHNICAL ANALYSIS



Gold prices remain mostly neutral as they hover around \$1730 an ounce and consolidate above \$1700 an ounce.

About the author: David Levenstein is an independent precious metals market commentator with more than 30 years' experience.

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