Gold, Silver Pounded To 2.5-Year Lows In Wake Of FOMC; More Downside Pressure Likely

Gold and silver prices ended the U.S. day session sharply lower, hit 2.5-year lows and set new daily lows in late trading. Fresh, serious technical damage was inflicted in the gold and silver markets Thursday, to suggest they will see still more selling pressure in the coming weeks.

August gold last traded down $90.00 at $1,284.00 an ounce. The August contract traded down to a low of $1,281.60 in late trading. Spot gold was last quoted down $65.50 at $1,286.25. Silver last traded down $1.818 at $19.80 an ounce. July silver hit a low of $19.64 in overnight trading.

Fed Chairman Ben Bernanke at his press conference Wednesday afternoon strongly hinted the Fed in the coming months will back off the accelerator on its monthly bond buying. After digesting the Fed news the marketplace reckons the Fed will start scaling back its monthly bond purchases (tapering) by the end of this year.
Some Fed watchers are now saying that by this time next year the Fed’s monthly bond buying could be completely gone.

For the past few years the commodity markets have been supported by the devaluation of the U.S. dollar.

Now that the Fed appears ready to "take the punch bowl away from the party," many markets are spooked.

More raw commodity-market-bearish news came from China Thursday, as the HSBC flash PMI dropped to 48.3 in June from 49.2 in May.

Any reading below 50.0 suggests contraction. Reports said the China manufacturing data Thursday was the weakest in months.

Other bad news for gold came from overnight reports that said Indian imports of gold will decline by 30% due to recent Indian government taxing measures meant to reduce the country’s trade imbalance.

With gold and crude oil prices taking big hits Thursday, to suggest more downside price pressure in both markets, it will be hard for most other raw commodity futures markets to sustain a price uptrend.

In fact, Thursday’s price action suggests the general bear market in the raw commodity sector is likely to continue for at least a few more months.

The U.S. dollar index was sharply higher Thursday and has made a big rebound from Wednesday morning’s four-month low. Wednesday’s Fed news is greenback bullish.

Crude oil prices were pressured Thursday by the stronger dollar and on profit taking after prices hit a four-month high Wednesday.

These two key "outside markets" were in a fully bearish posture for the raw commodity markets Thursday, including the precious metals.

The London P.M. gold fixing is $1,292.50 versus the previous P.M. fixing of $1,372.75.

Technically, the gold market took a major bearish hit Thursday by dropping to a 2.5-year low, and importantly dropping below what was a very important chart support level at the April low of $1,323.00.

Now, the door has been opened wide for more technical selling pressure in gold in the near term.

The next major, longer-term downside price targets are $1,227, and then at $1,100 and then at $1,027. August gold futures prices are in an eight-month-old downtrend on the daily bar chart.

The gold bulls’ next upside near-term price objective is to produce a close above solid technical resistance at the May low of $1,338.00. Bears’ next near-term downside breakout price objective is closing prices below solid technical support at $1,250.00.

First resistance is seen at $1,300.00. at the April low of $1,323.00 and then at $1,338.00. First support is seen at Thursday’s low of $1,281.60 and then at $1,275.00.

Silver bears have the strong overall near-term technical advantage and a market mover Thursday as prices dropped to a 2.5-year low and fell below what was major psychological support at $20.00.

Like gold, fresh major chart damage has been inflicted Thursday to suggest still more strong downside price pressure in the near term. Prices are in an overall eight-month-old downtrend on the daily bar chart.

Silver bulls’ next upside price breakout objective is closing prices above solid technical resistance at $21.50 an ounce.

The next downside price breakout objective for the bears is closing prices below solid technical support at $19.00.

First resistance is seen at the April low of $20.25 and then at $21.00. Next support is seen at the overnight low of $19.64 and then at $19.50.

**Gold’s Price Drop Creates Some Demand But Not Like April**

Gold prices dropping to its lowest point in 2 1/2 years is once again creating renewed demand for physical gold; however, it is not to the same degree dealers saw in April.

Patrick Heller, owner and CEO of Liberty Coin Service, said he saw a rush Thursday morning when the office first opened but the flow of customers has slowed down a little heading into the afternoon.

Heller added that he has the sense people considered that prices could go lower and are now waiting for prices to go up before they start buying physical gold again.

"We will see a moderate pace in sales but I don’t think it will be anything like April," he said.

Jim Pavlakos, president of Golden State Mint, said that demand has been steady since the April correction; as a result of Thursday’s drop in, Pavlakos said more people have been buying silver and swapping their gold for silver.

"Silver is the better deal right now," he said. "The drop in gold and silver overnight caused the [gold/silver] ration to widen to 65.

I think we will continue to see this kind of activity as the ratio remains high."

"Activity will keep going up as people continue to see these bargains," he added.

Although orders for physical gold in North American have picked up, analyst have been watching the Asian market to determine if increased demand will once again underpin the market.

"Already, we have seen some better interest going through the market this morning," said Afshin Nabavi, head of trading with MKS (Switzerland) SA. "Interest in the Far East has been quite remarkable."

Although gold has pushed below $1,300 an ounce and hit its lowest point in more than two years, some analysts are skeptical that it will be enough to encourage consumers to buy precious metals again.

"Will this enhance some physical buying in the metals coming forward at these new levels?" asked Sean Lusk, director of commercial hedging with Walsh
Trading. “That remains to be seen.”

Lusk added that he is expecting to see a big influx in physical buying closer to the end of the week.

Art Liming, vice president, future specialists at Citibank, said that although Thursday’s drop was significant he doesn’t expect it will be enough of a bargain to encourage buyers back.

“Right now we are in the midst of finding that new value that will encourage buyers,” he said. “I don’t think we are there yet.”

In April, strong buying in India and China played a key in keeping prices above the low at $1,321; however, The Reserve Bank of India’s restrictions on gold imports is expected to curb new demand.

In a report published on Tuesday, Barclays Capital said they expect “imports to be significantly lower in June.”

Stocks Extend Yesterday’s Sell-Off Amid Continued Fed Worries

Stocks moved sharply lower over the course of the trading day on Thursday, adding to the steep losses posted in the previous session.

The extended sell-off came as traders expressed continued concerns about the outlook for the Federal Reserve’s stimulus program.

The major averages saw further downside in afternoon trading, falling to their lowest closing levels in well over a month.

The Dow plummeted 353.87 points or 2.3 percent to 14,758.32, the Nasdaq dove 78.57 points or 2.2 percent to 3,364.63 and the S&P 500 sunk 40.74 points or 2.5 percent to 1,588.19.

The continued weakness on Wall Street came as traders continued to react negatively to the Federal Reserve’s monetary policy announcement on Wednesday.

While the Fed maintained the pace of its asset purchase program at $85 billion a month, upbeat comments regarding the economic outlook were seen as a sign that the central bank plans to scale back the program in the near future.

In a subsequent press conference, Fed Chairman Ben Bernanke said the central bank might begin tapering its asset purchases later this year, although he stressed that tapering the program is highly conditional on signs of sustained economic growth.

While most of the major sectors showed notable moves to the downside, gold stocks posted particularly steep losses.

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The substantial weakness among gold stocks came amid a steep drop by the price of the precious metal, with gold for August delivery plunging $87.80 to $1,286.20 an ounce.

Housing stocks also moved sharply lower on the day, dragging the Philadelphia Housing Sector Index down by 5.2 percent. With the loss, the index fell to a two-month closing low.

Significant weakness was also visible among commercial real estate stocks, as reflected by the 4.2 percent loss posted by the Morgan Stanley REIT Index. The drop pulled the index down to its worst closing level in almost six months.

Natural gas, semiconductor, pharmaceutical, and utilities stocks also posted steep losses amid the broad based weakness on Wall Street.

In overseas trading, stock markets across the Asia-Pacific region saw substantial weakness on Thursday following the overnight sell-off on Wall Street. Japan’s Nikkei 225 Index tumbled by 1.7 percent, while Hong Kong’s Hang Seng Index plummeted by 2.9 percent.

The major European markets also ended the day sharply lower. The U.K.’s FTSE 100 Index fell by 3 percent, while the German DAX Index and the French CAC 40 Index dropped by 3.3 percent and 3.7 percent, respectively.

In the bond market, treasuries moved notably lower, extending the steep drop seen in the previous session. Subsequently, the yield on the benchmark ten-year note, which moves opposite of its price, jumped 10.8 basis points to a nearly two-year high of 2.419 percent.

Trading on Friday may be somewhat subdued amid a lack of major U.S. economic data, although it is a quadruple witching day.

U.S. Existing Home Sales Jump To New Three-Year High In May

Existing home sales in the U.S. rose by much more than anticipated in the month of May, the National Association of Realtors revealed in a report on Thursday, with sales rising to their highest level in well over three years.

NAR said existing home sales rose 4.2 percent to a seasonally adjusted annual rate of 5.18 million in May from 4.97 million in April.

Economists had been expecting existing home sales to edge up to an annual rate of 5.0 million.

The bigger than expected increase lifted existing home sales to their highest annual rate since November of 2009, when sales spiked to 5.44 million in response to the home buyer tax credit.

The report said total housing inventory rose 3.3 percent to 2.22 million existing homes available for sale at the end of May from 2.15 million at the end of April.

Housing inventory represents 5.1 months of supply at the current sales pace, down from 5.2 month of supply in April.

Inventory is down 10.1 percent from a year ago, when there was 6.5 months of supply.
The median existing-home price was $208,000 in May, up 8.4 percent from $191,800 in April and up 15.4 percent from $180,300 in May of 2012.

NAR said the year-over-year price growth in May represents six straight months of double-digit increases and is the strongest price gain since October of 2005.

The report also said distressed homes accounted for 18 percent of existing home sales in May, unchanged from the previous month.

Next Tuesday, the Commerce Department is scheduled to release its report on new home sales in the month of May.

**Philly Fed Index Unexpectedly Surges Up To Two-Year High In June**

Manufacturing activity in the Philadelphia area unexpectedly increased in the month of June, according to a report released by the Federal Reserve Bank of Philadelphia on Thursday, with the index of activity in the sector climbing to a two-year high.

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The Philly Fed said its diffusion index of current activity jumped to a positive 12.5 in June from a negative 5.2 in May, with a positive reading indicating an increase in regional manufacturing activity. Economists had expected the index to climb to a negative 1.0.

With the much bigger than expected increase, the Philly Fed index rose to its highest level since hitting 13.7 in April of 2011.

The report said other indicators showed similar improvement, with the new orders index surging up to a positive 16.6 in June from a negative 7.9 in May.

The shipments index also climbed back into positive territory, rising to a positive 4.1 in June from a negative 8.5 in the previous month.

While the number of employees index also rose to a negative 5.4 in June from a negative 8.7 in May, the negative reading points to continued weakness in regional labor market conditions.

On the inflation front, the prices received index jumped to 22.5 in June from 6.9 in May, while the prices received index climbed to a positive 14.6 from a negative 3.3.

The Philly Fed also said the survey’s future indicators suggest continued optimism among the reporting manufacturers.

The future activity index edged up to 33.7 in June from 32.3 in May, reaching its highest level since coming at 40.9 in September of 2012.

Monday morning, the New York Federal Reserve released a report showing that conditions for New York manufacturers improved modestly in the month of June.

The New York Fed said its general business conditions index rose to a positive 7.8 in June from a negative 1.4 in May, while economists had expected the index to climb to a positive 0.5.

While the headline index rose by much more than expected, the New York Fed noted that most other indicators in the survey fell for the month.

**U.S. Leading Economic Index Rises Slightly Less Than Expected In May**

With positive contributions from financial indicators partly offset by negative contributions from other indicators, the Conference Board released a report on Thursday showing only a slight increase by its reading on leading U.S. economic indicators in the month of May.

The Conference Board said its leading economic index edged up by 0.1 percent in May following an upwardly revised 0.8 percent increase in April. Economists had been expecting the index to rise by 0.2 percent compared to the 0.6 percent growth originally reported for the previous month.

The modest increase by the leading economic index reflected positive contributions from the interest rate spread, stock prices and the Leading Credit Index.

However, negative contributions from the ISM new orders index, building permits, average weekly initial jobless claims, and manufacturers’ new orders for non-defense capital goods excluding aircraft limited the upside for the index.

The report also showed that the coincident economic index rose by 0.2 percent in May following a 0.1 percent increase in April.

The increase by the coincident index reflected positive contributions from personal income less transfer payments, employees on non-farm payrolls and manufacturing and trade sales. The Conference Board also said its lagging economic index increased by 0.3 percent in May after inching up by 0.1 percent in April.

Positive contributions from commercial and industrial loans outstanding, the ratio of consumer installment credit to personal income, the change in consumer prices for services, and the ratio of manufacturing and trade inventories to sales contributed to the increase by the lagging index.

**U.S. Weekly Jobless Claims Rebound After Two Consecutive Decreases**

After reporting an unexpected drop in first-time claims for U.S. unemployment benefits in the previous week, the Labor Department released a report on Thursday showing that initial jobless claims rebounded by more than anticipated in the week ended June 15th.

The report said initial jobless claims climbed to 354,000, an increase of 18,000 from the previous week’s revised figure of 336,000.

Economists had expected jobless claims to edge up to 340,000 from
the 334,000 originally reported for the previous week.

With the much bigger than expected increase, jobless claims partly offset the decreases seen in the two previous weeks.

The Labor Department said its less volatile four-week moving average edged up to 348,250, an increase of 2,500 from the previous week's revised average of 345,750.

Meanwhile, continuing claims, a reading on the number of people receiving ongoing unemployment assistance, dropped to 2.951 million in the week ended June 8th from the preceding week's revised level of 2.991 million.

The four-week moving average of continuing claims rose to 2,978,750, an increase of 7,000 from the preceding week's revised average of 2,971,750.

The report also said emergency unemployment claims fell to 1.68 million in the week ended June 1st from 1.70 million in the week ended May 25th.

Earlier this month, the Labor Department released a separate report showing that U.S. employment increased by a little more than economists had anticipated in the month of May.

The confidence index for the EU also improved sharply to -17.5 from -20.2.

The European Commission noted in a statement that the improvements were partly driven by a significant increase in Italian data. The Italian series would see a break due to a change in the sampling approach from this month, the statement read.

The final reading for consumer confidence is set to be released on June 27 along with the economic sentiment indicator.

Eurozone's consumer confidence rose significantly in June, further adding to signs of recovery in the 17-nation economy, preliminary data from the European Commission showed on Thursday.

The DG ECFIN flash consumer confidence indicator for euro area climbed to -18.8 from -21.9 in May. Economists were looking for a modest improvement to -21.5.

The indicator rose for the seventh consecutive month. The latest score is the strongest in more than a year.

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Rebound In U.K. Retail Sales Signals Quick Economic Recovery

U.K. retail sales rebounded at a faster-than-expected pace in May driven by food store sales, adding to evidence of economic recovery gaining firm footing in the second quarter.

Sales volume including automotive fuel grew 2.1 percent in May from a month ago, when it was down 1.1 percent, figures released by the Office for National Statistics showed Thursday.

It was the fastest growth since February and stronger than the expected 0.8 percent increase.

After sales were held back by cold weather in April, the increase in volume excluding automotive fuel also came in at 2.1 percent in May, reversing last month's 1.2 percent drop.

The rise came after food sales advanced 4.3 percent in May, after rising 0.6 percent in April.

Economists had forecast sales to grow only 0.2 percent.

Excluding auto fuel, sales advanced 2.1 percent annually after rising 0.6 percent in April. The rate of increase far exceeded the 0.5 percent expected rise.

Average weekly spending online in May was GBP 562 million. This was an increase of 10.3 percent compared with May 2012.

The report said non-farm payroll employment rose by 175,000 jobs in May following a downwardly revised increase of 149,000 jobs in April.

Economists had been expecting employment to increase by about 167,000 jobs compared to the addition of 165,000 jobs originally reported for the previous month.

Despite the continued job growth, the unemployment rate edged up to 7.6 percent in May from 7.5 percent in April, reflecting an increase in the size of the labor force.

Economists had forecast a moderate 1 percent rise.

An increase of 3.5 percent in food store sales helped the overall turnover to log a faster-than-expected increase.

Non-store retailing gained 4.3 percent from a month ago. By contrast, the increase in non-food store sales eased to 0.7 percent from 2.3 percent.

While record high employment and improving confidence are encouraging for consumer spending prospects, purchasing power is currently being constrained by very low earnings growth and recently higher inflation, Archer noted.

At his final Mansion House speech this week, Bank of England Governor Mervyn King said there is a need to support the recovery, although there are "clear signs" that a modest recovery of the U.K. economy is underway.

Annual growth in retail sales volume including auto fuel more than doubled to 1.9 percent from 0.8 percent in April.

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Eurozone Private Sector Slump Eases, Unlikely To Avert Q2 Contraction

The downturn in Eurozone's private sector economy eased sharply in May, but the improvement is unlikely to provide sufficient lift to the region's economy to avoid a further contraction in the second quarter.
Further decline in new orders, albeit slowest in five months, and job cuts suggest demand remained weak and hence, the economy may have shrunk in the three months ending June.

The currency bloc has been mired in the longest recession in its history as governments resort to growth-crippling austerity measures, weakening economic activity as well as the employment market.

Relived by the encouraging data, the European Central Bank that has been under pressure to engage in monetary easing to bring the 17-nation economy back on the growth path, is likely to maintain status quo in the near term.

Flash estimates from a purchasing managers’ survey compiled by Markit Economics showed on Thursday that the seasonally adjusted composite output index, a measure of activity in the manufacturing sector and the service sector, rose to 48.9 from 47.7 in May. The reading exceeded consensus forecast of 48.1, but remained below the no-change 50 mark that separates growth from contraction.

The rate of fall in new orders eased for the third month in a row. Companies lowered their staffing levels for the eighteenth consecutive month, and at a marginally faster rate than in May.

Input prices paid by private sector firms climbed for the first time in three months as a further rise in service sector input costs more than offset a marked fall in manufacturers’ costs.

Meanwhile, firms lowered their output prices for the fifteenth straight month amid strong competition.

The index measuring manufacturing activity climbed to a 16-month high of 48.7 in June from the previous month’s 48.3. The expected score was 48.6. Production levels at euro area factories fell at the slowest rate in nearly one-and-half years.

The European Central Bank left its key interest rate unchanged at 0.5 percent in the latest rate-setting session as policy makers took a wait-and-watch stance after last month’s quarter-point reduction, which was the first rate-cut in nine months.

China Manufacturing Contraction Deepens In June

China’s manufacturing activity contracted at a faster pace in June, reducing the prospects of a promising economic recovery, preliminary results of a survey by Markit Economics and HSBC revealed Thursday.

The flash manufacturing purchasing managers’ index fell to 48.3 in June from 49.2 in May. The index is now at its lowest level in nine months.

Readings below 50 suggest contraction of the sector. Both new orders and new export orders contracted at faster pace.

The manufacturing output index fell to 48.8 from 50.7 in May, marking the lowest level in eight months.

Employment at manufacturers contracted at a faster rate. Meanwhile, the rate of decline in input prices slowed.

Output prices continued its downtrend in June, with the pace of decline accelerating from previous month.

Chinese authorities have signaled tolerance towards slower growth to give more scope for reforms that may be beneficial to the economy in the longer-term.

In a statement on Wednesday, the State Council said that the government will firmly guard against financial risks, but did not make any remarks on the liquidity crunch.

The cabinet also pledged to increase credit to high tech manufacturing and ‘strategic’ industries.

Meanwhile on Wednesday, Moody's Investors Service warned that Chinese banks faced risks from rising local government debt.

The risks reflected the local government financing vehicles’ weak standalone credit profiles and the fact that they accounted for 14 percent of total bank loans at end-2012, the rating agency said in a report.

A slew of economic indicators released earlier this month suggested China’s economic growth likely slowed further in the second quarter after the first quarter’s 7.7 percent expansion.

The World Bank reduced its 2013 growth forecast for China this month to 7.7 percent from its January projection of a 8.4 percent expansion.

The growth is expected to accelerate to about 8 percent each in 2014 and 2015, as global conditions improve.

Last month, the International Monetary Fund downgraded its 2013 growth estimate for the economy to 7.75 percent and urged the nation to respond to the challenges especially in the area of social financing and reduce high dependence on investment.
## Precious Metals and Currency Technicals

### Gold

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