Van Eck Precious Metals and Oil Hotline
For: Wednesday, June 26, 2013
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To say that this is a tough time for most gold sector bulls would be a major understatement. A new burst of selling pressure from the investment community has broken gold down to a fresh multi-year low. We have been waiting for the precious metals and the mining stocks to prove that they have bottomed before putting our cash to work in the sector. We have also been watching the gold holdings of the GLD ETF for a sign that selling pressure has been exhausted. For a while, that ETF managed to hold the line near 1,000 tonnes. The latest hints from Ben Bernanke that the Fed is planning to slow its asset purchases shook the tree once again. To be honest, we are surprised that there were still so many ounces of gold left in weak hands. The price decline of the past week has chased a new batch of sellers to the sidelines. Looking at the coverage in the financial media, sentiment is extremely bearish. While there are some analysts and money managers saying that it is time to pick up bargains, the vast majority of the news reports talk about gold as if it has entered a multi-year bear market.

With spot gold down by about $52 an ounce today — the media is scrambling to explain the decline. Perhaps you have seen some of the headlines and reports on the subject. Most of them talk about gold selling off on fears that the Federal Reserve is preparing to cut back on stimulus measures. The fact that the metal has already declined significantly in recent months (driven by those same fears) no longer seems to matter. The really interesting thing about all of the Fed fear talk today is that many of the same media outlets are also running stories saying that the stock market is up because fears about Fed tapering are receding. Second quarter GDP was revised significantly lower this morning — from 2.4% down to 1.8%. In the modern world — where bad economic news is seen as bullish for stocks (because it is supposed to delay Fed action) — the market is rallying on that GDP cut. If all of the reports in the media and on Wall Street about gold being 100% linked to expectations for Fed monetary policy are true — then how come the metal is under pressure today? We believe the latest break lower in gold is a delayed reaction to last week's news out of the Fed. There was a burst a selling in the gold ETFs — with GLD holdings dropping by a reported 30 tonnes since the Fed news (not including the selling that has no doubt been taking place today as well).

The question now facing the remaining gold sector bulls is whether or not the long-term uptrend in gold is actually at an end. You already know what most analysts and commentators think about that topic. They believe investors should dump it all and head for the hills. Looking at the broad picture for the sector though, we simply cannot go down the road right now. If you take only one thing away from this week's Hotline, we want it to be the following fact. The precious metals and the mining stocks are already at severely oversold levels. The bears are going to have to bust the market wide open if they want to push prices any lower during the time ahead. Back in mid April, as gold was hitting its low for that stage of the sell-off, spot gold got as much as 21.5% below its 200-day moving average. That was one of the widest such divergences of the past decade-plus. When gold hit bottom in October 2008, the price was about 23% below that moving average. At its current price near $1,226 an ounce, spot gold is about 22% below its 200-day moving average. That means the market has already been pushed to the point where sellers have previously run out of near-term momentum.

Gold is now down by 36.1% from its September 2011 all-time closing high near $1,920 an ounce. Is that really how we should be measuring the decline in gold? After all, that peak took place nearly two years ago. It is hard to believe that most sector investors truly "feel" that weakness the same way they did the seven-month decline of 33.5% during 2008. That latter drop was part of a broader deleveraging. With the exception of bonds — there were few places to hide from the financial crisis. At the 2008 low, the level of fear was extremely high. The fact that the bears had already pushed gold down from a March 2008 high of $1,030 to a washout low near $685 was not enough for that crowd. They had the taste of blood and many of them simply refused to even consider the idea of gold forming a new bottom and moving back above $1,000 an ounce. It took the better part of a year for the market to power its way back above $1,000 — but the fundamentals eventually overwhelmed the short sellers and other bears. This time around, the 2011-2013 decline in gold has surpassed the extremes seen during 2008. Given the ample signs of strong physical demand for gold around the world (and the likelihood that the central banks are still adding to their gold reserves), investors are on their own if they want to push the issue on the downside.

The price action in both gold and silver of late has been quite difficult for even veteran investors in the sector. However, the damage to the mining stocks has far surpassed that situation. The HUI Gold BUGS Index fell by about six percent today. That puts the index back to where it was on September 23, 2003 — almost a decade ago. Where was gold trading on that day during the fall of 2003? Spot gold was near $385 an ounce. That means the marketplace has priced the major unhedged mining stocks to reflect gold trading some 69 percent below the current price. Does that look like anything resembling normal and trustworthy trading action? Something is not just "off" with the mining stocks. The situation has been pushed to extremes not seen since the bull market got underway during the second half of 2001. If the precious metals sector was not so volatile right now, we would step in on the buy side today. However, it is obvious that blind fear has taken hold of the sector. We have been waiting for quite a while to put our cash to work in new long positions — and we can wait a bit longer.

The latest look at COMEX gold futures showed that the speculators were net long only 43,692 contracts (June 18). That was the lowest reading in years. Given that spot gold was still trading near $1,370 at the time of that report, the speculators have no doubt pushed their net long position even lower. That situation is close to the same balance of longs and shorts that we saw back in mid 2001 — before the start of the bull market — when gold was still trading near $270 an ounce! When we look at all of the information that we have laid out in this Hotline, we see a market that is already saturated with fear and short selling. The media is blaring away about an imminent decline in gold below $1,000 an ounce. Until the gold holdings of GLD and the other ETFs stabilize, the price could move even deeper into oversold territory. The correction to date has already removed much of the gains seen during Fed quantitative easing. That horse can only take the shorts sellers a certain distance and then it will refuse to go another step.

In late afternoon trading today, spot gold is at $1,226.10, down by $135.10(9.9%) in the past week. Spot silver is at $18.58, down by $2.99 (13.9%). The HUI Gold BUGS Index is at 206.87, down by 41.25 (16.6%). The Dollar Index is at 82.95, up by 1.50 (1.8%). For all of the hoopla about a strong dollar, the Dollar Index is only back to where it was earlier this month. The euro is at $1.3009, down by 2.0%. The U.S. dollar is at 97.78 yen, up by 1.1%. Our gold and silver sector portfolio (Current long positions: portfolio available to subscribers only) is up by 31.5% since November 2007. The HUI Index has fallen by 53.0% during the same period of time. Year-to-date, our portfolio has lost 22.6%. The HUI Index is down by 53.4% so far in 2013.

Our current top buy candidates in the sector: Market Vectors Gold Miners ETF (GDX) is at $22.22, down by $4.62 (17.2%) in the past week. Paramount Gold and Silver (PZG) is at $1.05, down by $0.37 (26.1%). Eldorado Gold (EGO) is at $5.66, down by $1.19 (17.4%). Barrick Gold (ABX) is at $14.78, down by $3.42 (18.8%). Newmont Mining (NEM) is at $27.22, down by $4.94 (15.4%). As for the two short gold ETNs that we have been tracking: The PowerShares DB Gold Short ETN (DGZ) is at $15.73, up by $1.37 (9.5%). The PowerShares DB Gold Double Short ETN (DZZ) is at $7.80, up by $1.22 (18.5%). August crude oil is at $95.49, down by $2.51 (2.6%). September natural gas is at $3.74, down by$0.23 (5.8%). Our portfolio of energy stocks (portfolio available to subscribers only) is up by 16.7% since we set it up in July 2008. That compares to a decline of 1.6% in the XOI Index during the same period of time. More next week. We will publish a special update if we believe it is time to do some buying.

Next Hotline will be updated no later than 7:00 P.M. Eastern on Tuesday, July 2, 2013