



Gold vs. the US Dollar

The US Dollar has moved center stage as we continue to digest the poor economic news out of Europe long with China's decision to begin raising interest rates in mid-March. Whether it's Spain, Greece or Dubai, the fiscal health of a handful of European countries has put a great deal of pressure on the Euro over the past few weeks. As a result, the US Dollar is trending higher against most foreign currencies. Historically, Gold has been used as a hedge against the US Dollar. Today, it seems this hedge trade has morphed into a speculative trading strategy. For the moment, it is important to be familiar with the inner-workings of the US Dollar in order to better gauge where the price of Gold may be heading. After reaching a high of \$1227/oz. in early December '09, Gold made a subsequent "lower" high at \$1162/oz. in early January '10 (see chart below). This week, Gold has been re-testing support in the \$1070-\$1080/Oz. range. Thus far, that level has held. The question is now, "is the next move in the US Dollar higher or lower"? Even if Gold trends lower from these levels, prices should find good support between \$1045-\$1055/oz. This may be a good entry point.



China reported 10.7% GDP in its latest quarter sparking talks of higher interest rates and tighter lending standards throughout China's banking system. China's fiscal stimulus in late 2008 buffeted their economic downturn and provided enough liquidity to re-grow their economy much faster than the world's economy. The US economy is beginning to show signs of steady recovery which will eventually force the US Federal Reserve's hand in raising short-term interest rates.

So far, the Federal Reserve has made no move whatsoever to tighten monetary policy. They stand steadfast in their policy stance to remain in a quantitative easing strategy for the foreseeable future. The most recent bounce off the lows in the US Dollar will most likely lose strength in the coming weeks as the news out of Europe and China is absorbed into the market. Gold prices should remain in a tight range into next week. Be patient and wait for your price. If Gold holds \$1045/oz., prices could recover quickly to test the most recent highs of \$1162/oz. See new recommendation below.

TRADE RECOMMENDATIONS (1/27/2010)

Gold Futures:

Long GCj10 (April 2010 Gold) at 1053 o/b with a GTC sell-stop at 1018. If filled, exit position if April 2010 Gold rises above 1136/oz.

Gold Options:

Buy GCM10 (June '10 Gold) 1300 calls (expires- 5/25/10) at 6.40 o/b (\$640). If filled, exit position if the option price trades above 14.20 (\$1420).

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