



Is Gold the new global currency?

Gold has become the go to asset to own not only to hedge against a weak US Dollar but as a panic hedge to worldwide financial uncertainty. The EU has pledged nearly 750 billion Euros to backstop Greece's sovereign debt and any other EU partner that may potentially default. Even though for the past several years Gold has traded higher as the US Dollar weakened, this trading strategy has recently faltered as the fear of a European collapse has overshadowed the recent Dollar's strength. In fact, Gold has risen in lock-step with the Dollar for 4 straight weeks. This is a good indication that the Dollar/Gold relationship has morphed into something much different than before. As of 6/17/10, August Gold sits just under its all time high of \$1252/oz. reached in early June (see chart below). Worldwide demand has increased dramatically as both retail and private investors have begun to increase the percentage of Gold in their portfolios.



Governments around the globe are stockpiling Gold to hedge against currency fluctuation and catastrophic bank failures. For instance, if the Euro were to weaken considerably more over the second half of 2010, governments holding Euros would be forced to sell the currency and would most likely re-invest in hard assets such as Gold. This will likely keep a strong bid under Gold for quite some time.

What most people don't understand about the European Union's dilemma is that even though the weakening Euro will make it easier for those countries to manage their high debt levels, it will be offset by the rising interest rates imposed upon them by the market as a result of their individual financial condition. German Bunds may remain in the 3%-5% range while Spain, Greece, Portugal and Italy may have to pay as much as 15%-20% to borrow the same amount of Euros. This huge disconnect will undoubtedly be one of the main reasons for the Euro's demise. As a result, Gold prices should continue to rise steadily over the next several years as the EU's financial mess plays out. Long-term investors should begin to position their portfolios to take advantage of what may be a once in a lifetime paradigm shift in the Gold market.

TRADE RECOMMENDATIONS (6/17/2010)

Gold Futures:

Long GCQ10 (August 2010 Gold) at 1214.50 o/b with a GTC sell-stop at 1187.00. If filled, exit position if August 2010 Gold rises above 1276.00/oz. Hold some positions as Gold prices could reach well above \$1300/oz. as investors seek safety by re-allocating their assets out of equities and into hard commodities.

Gold Options:

Buy GCV10 (October '10 Gold) 1350 calls (expires- 9/27/10) at 13.50 o/b (\$1350). If filled, exit position if the option price trades above 23.50 (\$2350). Hold some options as they may increase to 30.00 or 40.00 if Gold breaks above \$1300/oz. in the near-term.

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