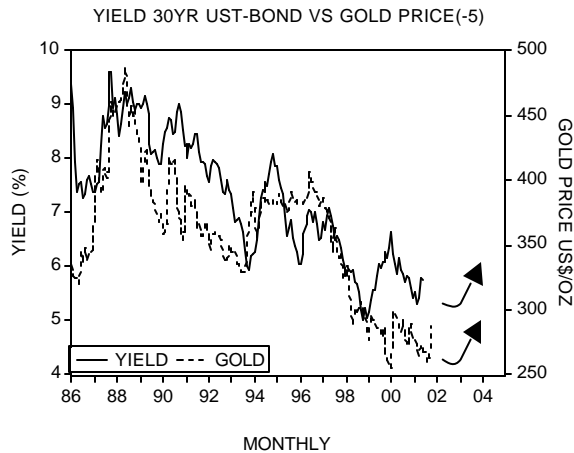
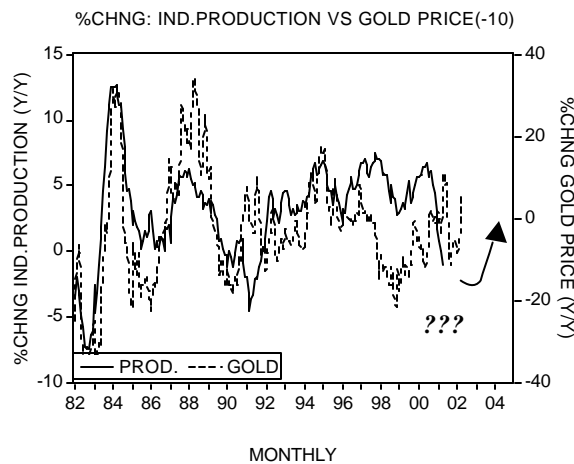


How sustainable is the recent increase in the price of gold?

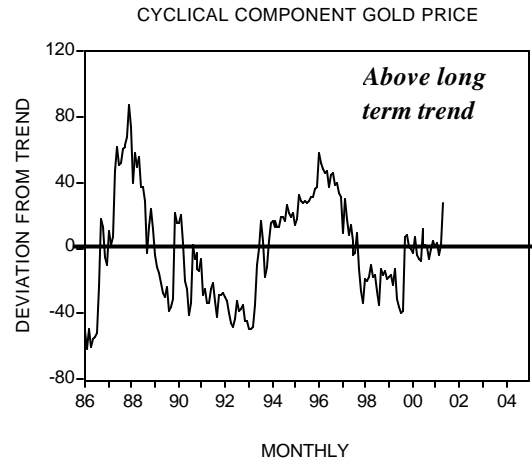
On Friday the price of gold increased by \$13.80 to \$287.80 an ounce. Much of the buying on Friday was attributed to short covering. There have also been reports of slower central bank sales. Historically a rise in the price of gold has been bad for US T-bonds (see chart).



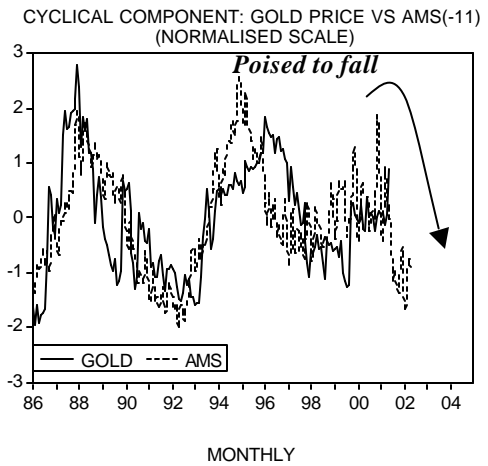
Also, historically yearly changes in the price of gold have been a good predictor of US industrial production growth (see chart). Consequently this raises the possibility that the momentum of industrial production growth is poised to increase, all other things being equal.



For the time being the cyclical component of the price of the yellow metal has moved strongly above its long-term trend (see chart).



It is however, questionable whether this strong rebound will hold. Using the cyclical component of lagged money AMS we can suggest that there is a high likelihood that *the cyclical component of the price of gold will weaken sharply in the months ahead* (see chart).



Financial News

- Japan March ind output fell **2.9%** vs **-2.1%** in y/y.
- UK leading index up in April from March.
- Euro-zone ind output fell **0.2%** in March m/m.
- US Mar trade deficit **\$31.2bln** vs **\$26.9bln** in Feb.
- US Q1 layoffs up **20%** y/y.

Thought for today

We either make ourselves happy or miserable. The amount of work is the same.

Carlos Castaneda