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Mine to MARKET

It's been a rough few weeks for gold buyers. After rallying up toward USD $1200oz in the middle of October, it's been all downhill since, with the gold price crashing back to yearly lows nearer USD $1,080oz

It's been no easier a time for those who prefer to invest in or wear silver, with the gold's little cousin falling the better part of 10% over the same time period. Currently, silver is selling for just over USD $14oz.

For those of us buying and selling in Australian dollars, it's been a relatively similar story these past few weeks. At one point in late October, gold in AUD was pushing up toward $1650oz, but it has since eased, and is currently sitting at just under AUD $1530oz. For the year, returns are still positive for local investors, as end December 2014 saw a gold price of closer to AUD $1450oz.

So what's been behind the latest weakness in the precious metals market and where does it go from here?

To answer the first part of that question, we need look no further than the Federal Reserve Bank in the United States, who are now looking as if they'll raise interest rates for the first time in nine years in December 2015.

At least in the short term, gold prices tend to react negatively to higher interest rates, so the recent sell off is all to do with market participants assigning a higher probability to an interest rate hike. It's not a done deal by any means, but the odds definitely indicate it is likely.

Whilst this pending move in the United States is holding back gold and silver prices in the short term, we're not sure that will prove to be the case going into next year, with there being plenty of times in the past that gold prices rally whilst interest rates are increasing too.

Part of the reason we're still optimistic about where prices for gold will head is the robust demand we are seeing for precious metals. For evidence of that, we need only look at the recently released Gold Demand Trends Q3 2015 released by the World Gold Council.

In it we found that the demand for gold in Q3 this year was a full 8% higher than the previous year, with noticeable increases in bar, coin and jewellery demand.

Bar and coin demand alone rose by 33% to 295 tonnes in Q3 this year, whilst jewellery demand rose by 6% from the same quarter of 2014.

It's important to remember though that jewellery is a much bigger part of the market than bars and coins, with over 630 tonnes of gold jewellery purchased in the quarter.

Therefore, whilst we are cautious about where prices will head between now and Xmas 2015, we still see the market for gold as incredibly strong, and think prices will rise noticeably over the next few years

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