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Outlook for gold is negative, but short-term selloff is overdone, says Luc Luyet, strategist at Pictet Wealth Management

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"Gold suffered an intraday decline of around 4% in Monday morning trading, going through USD1,100 per ounce at one stage. The outlook for gold for the next months is not positive, as fears of Grexit have receded and a US rate rise is approaching. However, the scope of today's sell-off looks overdone, and there has already been a sizeable rebound. Downside risk to the gold price over the next six months should be limited to USD1,050/ounce," says Luc Luyet, strategist at Pictet Wealth Management.

"Downwards pressure on gold is mainly the result of higher risk appetite, following the deal by eurozone leaders on Greece last week. As fears about Grexit have dissipated, markets have switched their focus back to fundamentals, which are broadly supportive. This has buoyed stocks and weigh on safe-haven assets like gold. Clearer signs from the Fed last week that a US interest-rate rise will come before the end of 2015 were also bearish for gold."

"Suggestions that Monday's sell-off was driven by the People's Bank of China (PBoC) revealing its gold holdings on Friday (for the first time since 2009) look questionable. China should at the margin be a supportive factor for the gold price going forward, as the PBoC may want to increase its gold holdings in the medium term to be more comparable with other major central banks like the Fed and the ECB that have a currency in the SDR basket."

"Instead, the depth of the selloff looks to have been the result of a short squeeze magnified by illiquidity. The sharpest falls occurred when most markets were closed, and the impact of stop-loss sales was magnified by a lack of liquidity. Gold is usually closely correlated with silver, but whereas gold broke key levels, silver is still above its critical support of USD14.42 per troy ounce."

We see a bearish run for gold continuing on a six-month view. But with Fed tightening likely to be only gradual, the downwards pressure on gold could recede after the first rate hike."

-Ends-

Notes to the Editor

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