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CONCERNS ABOUT INFLATION AND GEOPOLITICAL ISSUES WILL CONTINUE TO SUPPORT GOLD PRICES

- Comex gold future contract prices are now trading at \$1813, up from a low of \$1785 last week. Inflationary pressures from rising oil prices and rising tensions between Russia and Ukraine enhance gold's positive price movement.
- According to Bank of America strategists, despite the challenging macro backdrop of supply chain issues, surging inflation, and lingering pandemic risks, some gold investment flows have been very resilient.
- UBS predicts that gold will fall to the \$1,650-1,700/oz range in the second half of 2022. It also expects risk sentiment to improve as the dual threats of the omicron Covid-19 variant and inflation subside.
- Ongoing Russia-Ukraine tensions are likely to support demand for safe-haven assets, mitigating the effect of the Federal Reserve's impending monetary policy tightening. US President Joe Biden and French President Emmanuel Macron have discussed how to respond to Russia's military buildup on the Ukrainian border. Russia has repeatedly denied any intention of attacking Ukraine.
- However, according to the Commitments of Traders (COT) report for the week ending February 1, net long gold futures fell by 48009 contracts to 172142 contracts. Shorts gained 10588 contracts while speculative longs lost 37421 contracts. The US CFTC's COT reports, which are issued weekly, highlight hedge funds' futures positions and developments in commodities, currencies, and financials.
- Short positions are building up in gold in anticipation that the Fed will kick off a series of interest-rate hikes. Strong employment report has increased chance of strong fed action to control inflation via interest rates. The US economy added 467K jobs in January, well above the 150K forecast, while wage growth was hotter than expected. Average Hourly Earnings rose at a stronger MoM pace of 0.7% in January, above the expected 0.5% MoM gain and faster than December's 0.5% MoM gain, which had been revised lower from 0.6%.

Outlook

- Gold prices are likely to trade firm while above key support level of \$1790-\$1773 meanwhile it may face stiff resistance around \$1820-\$1833.

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