RIO's 2007 forecast is that the US Dollar will remain very Vulnerable, Gold could move higher!

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It's the last few days of a year were gold investors were very excited by a gold price that reached above $700 an ounce during May, since then it seems stubbornly stuck around the low $600s. However, there are a number of factors coming into play in the early part of 2007 that may give the yellow metal a lift. Many RIO members holding Hansard Pinnacle accounts will be interested to learn that I have re positioned there investment holdings selling 40% of all US Dollar cash held within all members accounts to Gold bullion last week. This re balances there holdings as we move in to the new year ahead.

There has been a progressive shift away from the US Dollar and towards the Euro as the primary currency of international trade. The US Dollar still leads in most areas, this lead is being eroded, and as its depreciation continues, it's long been RIO's forecast that more and more deals will be done in euros to minimize any exchange rate risks currently associated with the Dollar.

An example would be this week's news that Iran is to carry out all its oil industry related equipment purchases in Euros instead of US Dollars, and that the entire Iranian government is to budget in Euros from now on. Iran's move is partly political, but there is the obvious a commercial justification.

The U.S. Commerce Department released data that estimated the U.S. economy's annualized rate of growth through July to September at 2%, down from the 2.2% that was previously forecast. This is only a minor downward revision; however it underlines our prediction that the U.S. economy is slowing substantially; I would further point out that during the first three months of the year the annualized rate of growth was 5.6%.

Most of the blame for the downturn is being allocated to the end of the U.S. housing boom which we have also forecasted in our US housing market updates, the down turn is causing investment in new housing stock to fall and discouraging consumers from borrowing against their homes in order to keep on spending.

The Federal Reserve Bank has held U.S. interest rates steady now since August, I predict that as the slowdown in the U.S. economy persists, the Fed may be forced to give it a push by way of a rate cut, this will further undermine the US Dollar at approximately the same time as the Euro is expected to receive a boost from higher interest rates.

I also predict that he European Central Bank to further raise its rates in the early part of next year, an expectation that was bolstered earlier this week when an influential survey of business confidence in Germany, the euro zone's largest economy, estimated German business leaders to be cheerier than they have been at any time since 1990.

A look at the pattern of trade in the gold market on any given day shows the price to be highly dependent on the omens for the US Dollar. In the long-term, the US Dollar's influence will be even greater, the fact that the US Dollar's long-term trajectory is down, then gold should be set to benefit. So, will 2007 be gold's year only time can tell.

So much depends on whether or not the central banks of East Asia continue to keep a floor underneath the US Dollar by using their immense and still burgeoning foreign exchange reserves to purchase US Dollar assets. It may be that until this policy is altered, that the US Dollar will be reasonably steady and there will be no jump in the gold price.

With the factors that I have previously outlined working against the US Dollar it is very possible that the resulting weakness will prompt one or more of the East Asian central banks to make their move away from this somewhat risk ridden currency. But more likely is that the East Asians will take their cues from the needs of their domestic economies.

These economies send a significant proportion of their exports to the USA, so the maintenance of US demand through the maintenance of the value of the US Dollar has been a policy with some justification perhaps.

I would comment that US demand is slowing and demand at home, in Europe and elsewhere picking up. Hence in my prediction that there will come a point where it becomes very clear that the benefits from supporting the US Dollar do not outweigh the costs, which will lead to the obvious sell off of a massive quantity of US Dollar assets against the backdrop of a falling US Dollar is doomed to be a poor investment.

When this point is reached not if, the East Asian purchases of US Dollar assets will come to a halt and there will be a move by one or more of the banks to shift the balance of their reserves away from this currency. An exodus out of the US Dollar will develop, causing its value will collapse.

AT which point East Asian central banks will have no choice apart for sifting in to major currencies like the Euro and the Yen, their will be many other investors will prefer gold at this juncture; thus sending the price past the highs of earlier this year. However above would require the East Asians to set the ball rolling, and whether or not they will do so as early as 2007 cannot be guaranteed.

It's coming sooner rather than later perhaps; just one look at latest numbers on the US trade deficit, which widened by over 6% to a record $24.4 Billion in October, should be reason enough!

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