

## Game Changer

Friday was the best single day for gold in 14 months. This is as the markets seem to be playing a risk-on, risk-off tug of war with the US dollar. Despite the strong dollar trade dominating as we witnessed through the beginning of the week, it corresponded to the weakness in gold. The pullback we witnessed in the dollar into the close Friday stems from concerns over what may be the repercussions of a strong dollar for the US economy. Without doubt though, the trend is and has been for lower gold prices. A key day for the gold market was when we swiftly broke the 1181 USD support level, which the market had tested on three prior occasions beginning in June of 2013. As this was the first time the market has been sub-1180 since mid-2010, the physical markets were and are awash with new buyers.

As we learned over the last few weeks, despite the US Federal Reserve calling an end to their current round of experimental monetary stimulus, the game still lives on outside of North America. Although it certainly seems plausible that quantitative easing from the US Fed could make a return should the US economy warrant it, focus is what central banks are doing outside North America, particularly both the ECB and the Bank of Japan (BoJ).

The Bank of Japan shocked the markets into the end of last week as their governor, Haruhiko Kuroda, announced it will increase its purchase of government bonds from 50 trillion yen a year to 80 trillion. This was announced in tandem with the Government Investment Pension Fund announcing they'll double their allocation to domestic stocks. The BoJ in essence is

crowding savers out of an already conservative investment environment that is Japan. And although the BoJ and GPIF are putting through initiatives that will perhaps help Prime Minister Abe generate that desired 2 per cent level of inflation, uncertainty remains whether it can be successful.

The lingering question is what will be the impact on Japanese savers who do not see the same availability of government debt to purchase and hold. Will they seek out riskier assets, like equities, as was witnessed in the US through QE? Or, is this another factor supporting a strong dollar trade that sees the Yen sold for the alternative of being positioned in US assets, and the benefit of the deepest most liquid capital and treasury markets in the world?

At a conference this week hosted by the Bank of France, former PIMCO CEO Mohammed El-Erian made some very revealing comments. He said, "this is a world which places too much of a burden on central banks. This is a journey, not a destination. If the journey lasts too long, central banks go from being part of the solution to perhaps being part of the problem." For the moment, only time will tell how this all plays out.

However, if El-Erian's assertions prove to be correct, than those buying gold at these levels may be one step ahead of the pack if in fact Central Banks continue on their current path. And at this point there is absolutely no reason to think that they won't.

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