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Gold sees dramatic price drop from 5-month high as dollar strengthens

As the dollar strengthened, gold futures and spot price took a tumble.

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  April 5, 2017 16:08 BST

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Gold bars on display at the Czech National Bank in Prague Reuters

Volatility in the precious metals market hit an unprecedented level on Wednesday (5 April) after gold futures and spot prices declined by over $10, from five-month highs, as the dollar strengthened against most major global currencies, with the latter riding high on positive services sector sentiment.

At 2.45pm BST, the Comex gold futures contract for June delivery was down 0.91% or $11.50 to $1,246.90 an ounce. Concurrently, spot gold was trading at $1,245.85 an ounce, down 0.83% or $10.43, as short-sellers overwhelmed safe-haven punters spurred on by the strength of the dollarfollowing a positive US jobs report from the ADP Research Institute.

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It noted that private payrolls rose by 263,000 in March –versus market forecasts in the 185,000-200,000 range – following on from a 245,000 gain in February, revised lower from an initial reading of 298,000.

It meant the dollar became the dominant intraday market driver, explained FXTM research analyst Lukman Otunuga.

"It is becoming quite clear that dollar bulls are in need of inspiration to elevate the greenback higher, with the ADP report acting as a catalyst."

As for the direction of the gold price, Carlo Alberto De Casa, chief analyst at ActivTrades, said in a declining market the first significant support area for the yellow metal is placed at $1,240, followed by $1,225. "However, it is possible that we could see a new bearish signal if prices drop below $1,200/1,195."

Elsewhere, spot platinum was down 0.20% or $1.92 to $958.98 an ounce, while the Comex silver contract for May delivery was down 0.43% or 8 cents to $18.25 an ounce.

Oil futures near one-month highs

Away from precious metals, oil futures made an attempt to touch a four-week high after American Petroleum Institute data, released overnight, registered a decline in US crude inventories of 1.8m barrels for the trading week before.

At 3.15pm BST, the Brent front month futures contract was up 1.50% or 81 cents to $54.98 per barrel, while the West Texas Intermediate (WTI) was down 1.55% or 79 cents at $51.82 per barrel, still holding firm above the $50 level.

Oil futures reverse losses following decline in US crude inventories. Reuters

Production outage at the North Sea's Buzzard field, the largest contributor to the UK's Forties Pipeline System to the tune of 180,300 barrels per day (bpd), also supported prices. Atop the North Sea outage and US inventory decline, the crude market had no shortage of price supportive industry updates.

For instance, ministry data from Nigeria showed oil production in the country was down by 225,000 bpd month-over-month in March, and Azerbaijan also reported a 43,000 bpd drop over the same month, as market chatter on Opec and non-Opec producers extending output cuts, instituted in December 2016 until end-June, continues to intensify.

However, analysts at Vienna-based JBC Energy told clients that even in the event of the cuts not being extended into the second half of the year, the global market would still continue to draw stocks at a mild pace of about 200,000 bpd until September, "thereby lending support to oil prices one way or another".

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