Debt Ceiling Raised — So Why Isn't Gold Rallying?

By TRANG HO, INVESTOR'S BUSINESS DAILY
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Gold prices yawned at the news of Congress kicking the proverbial can down the road in raising the debt ceiling.

Trading was flat even though this means Uncle Sam's pile of debt will grow still bigger. The gold bugs contend this will drive gold prices higher because the government will have to continue to debase its currency to pay down the debt.

Not So Safe A Haven

The yellow metal has failed to live up to its reputation as a safe-haven asset or insurance against uncertainty and money printing. It's been steadily melting after scoring a three-month high in late August despite a government shutdown, Uncle Sam teetering on the brink of default, and the Federal Reserve continuing economic stimulus. To be sure, some investors may have been certain all along that Washington would eventually find a compromise.

Spot gold prices have tumbled 9% after breaking above a psychologically significant level at $1,400 an ounce over the past six weeks. The seemingly more risky stock market climbed to fresh highs.

SPDR Gold Shares (GLD), tracking a 10th of an ounce of bullion, tumbled 8% over that period.

"I will admit to being puzzled," said Adrian Day, founder of Adrian Day Asset Management in Annapolis, Md., with $125 million in assets. "The only rational explanation is that the market is looking ahead to the eventual tightening it knows must come and to when the budget crisis is solved. We have seen others solved at the last minute."

Deeper Debt A Given

The gold bugs contend that massive U.S. deficit spending and continued economic stimulus will continue after the standoff passes.

"Incumbent officials of both parties so depend on the continuation of these policies (for re-election) that the crisis will be resolved with no material changes, and gold's 13-year bull market will remain intact," said Tom Winmill, portfolio manager of **Midas** (MIDAS), with $205 million in client assets.

Terry Sacka, chief strategist at Cornerstone Asset Metals in Palm Gardens, Fla., says he believes China may be manipulating gold paper trading to acquire physical gold in the short term.

"(The) Chinese are impressive planners. They don't mind low bullion prices now while they are buying and continuing record-level purchases of gold and silver," Sacka wrote. "They plan ahead. They know one day soon the dollar will lose a lot of value and prices will skyrocket, thus protecting their $3 trillion position in the dollar."

Deflation Beating Inflation

The country's debts and the Federal Reserve's quantitative easing programs haven't fueled inflation as the gold bugs expected.

The government shutdown, possible debt default and weak economic growth have been deflationary as indicated by the consumer and producer price indexes, says Bill Strazzullo, chief market strategist Bell Curve Trading in Freehold, N.J.

PowerShares DB U.S. Dollar Index Bullish (UUP), measuring the greenback against a basket of major foreign currencies, usually moves opposite gold. But this summer and autumn, it's followed gold south and currently trades near a two-year low.

Market Vectors Gold Miners ETF (GDX) tumbled 17.5% from its late-August high to confirm that its outperformance in second quarter was merely a countertrend rally.

Silver Prices

Silver prices touched a three-month high of $25 an ounce in late August and have since turned tail, tumbling 15% over the past six weeks.

IShares Silver Trust (SLV) has tumbled 14% over the past month and a half.

Global X Silver Miners ETF (SIL) slipped 28% over the same period.

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