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Chinese Inflation Pounds Gold, Silver; New Lows Seen

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Gold and silver prices gave back nearly all of their prior day's rally and the dollar and yen slid further Friday after China reported inflation accelerated in December.

Rising inflation reduces the certainty of more economic stimulus, which traders see as a catalyst for driving precious metals prices higher.

Spot gold prices lopped off 0.88% intraday to $1,661 an ounce, giving back the prior session's gains.

SPDR Gold Shares (GLD), tracking a 10th of an ounce of bullion, tumbled 0.79% to 160.70.

Market Vectors Gold Miners ETF (GDX) shed 0.07% to 45.38.

"Gold and silver appear to be falling with materials generally, trading more like commodities than precious metals, on negative global economic news," Tom Winmill, manager of Midas Fund , said in an email.

Gold broke below key support at the 200-day moving average, falling back into a downtrend. The yellow metal is now trading below both the short-term 50-day moving average as well as the long-term 200-day line, which is very bearish. What's more, the yellow metal broke below a major, long-term uptrend line connecting the 2008 and 2012 lows, which some technical traders use as a sell signal. The next levels of price support are the lows from Jan. 4 and Dec. 20 near 158 on GLD and $1,580 an ounce for gold.

"But China has begun and is likely to keep stimulating again, and that should be positive for gold," Harry Dent, founder of HS Dent, a stock market and economic research firm in Tampa, Fla., said in an email. "U.S. growth is going to slow in the first quarter and that gives more incentive for China and Europe to stimulate again."

Traders are slamming gold and silver to shake out the weak hands to create an opportunity to buy back at lower prices, says Dent. He believes traders should buy the dip on the expectation that prices will run up to new highs before topping in late February or May.

Consumer prices in the People's Republic climbed to 2.5% (year over year) in December from 2% the prior month, marking the fastest rate in more than six months. If inflation is rising in China, it's less likely to print more money to juice the economy, which dampens demand for hard assets.

The gold bulls contend negative real interest rates in the U.S. and other countries makes gold appealing because the opportunity cost of holding precious metals relative to cash is negligible.

Gold will rise to a new high this year because of the "continuation of negative real interest rates and heightened concerns over the direction of monetary and fiscal affairs in all western democracies," John Hathaway, portfolio manager of Tocqueville Gold Fund , wrote in a quarterly letter to clients Friday. "Such concerns will be exacerbated by the continuation of extremely weak economic activity in 2013 and quite possibly the resumption of a recession, anticipated by few.

"Most investors seem to expect a gradual acceleration of economic growth in 2013," he wrote. "We disagree and believe that the recent tax hike, one of the largest in history, will dampen economic activity sufficiently to widen the deficit and require the extension of debt monetization by the Fed for years to come."

Hathaway concluded: "Investor sentiment on gold is extremely negative, comparable to the levels of mid-May 2012, when gold was trading approximately $100 an ounce below current levels. Historically, extreme negative sentiment levels such as these have provided excellent entry points for new positions in bullion and the mining shares."

Gold should find price support at $1,660 an ounce and resistance at $1,700 in the week ahead, Walter de Wet, an analyst at Standard Bank, wrote in a commodities report Friday. "If gold manages to break through $1,700, we would target $1,720," he wrote.

Silver Prices

Silver prices slipped 1.46% to 30.51.

IShares Silver Trust (SLV) dropped 1.28% to 29.40.

Global X Silver Miners ETF (SIL) fell 0.18% to 22.38.

The white metals also broke below its 200-day line after barely recovering it the prior session, confirming a downtrend. It also fell below a multiyear uptrend line connecting its 2008 and 2012 lows, which is very bearish.

Yen and U.S. Dollar Dive

PowerShares DB U.S. Dollar Index Bullish (UUP), measuring the greenback against a basket of major foreign currencies, lost 0.39% to 21.72.

CurrencyShares Japanese Yen Trust (FXY), tracking the yen against the dollar, skidded 0.94% to 110.94, a 2-1/2-year low after Japan's cabinet approved the island nation's fiscal stimulus plan.

CurrencyShares Euro Trust (FXE) added 0.65% to 132.35, a 10-month high. It extended a rally that started Thursday after European Central Bank President Mario Draghi announced the ECB's decision to keep interest rates unchanged. In addition, a surprise increase in China's exports sapped demand for safe-haven currencies and fueled support for risk assets, according to Christopher Almeida, an analyst at DailyFX.com.

Midas' Winmill sees more dollar weakness against the Euro. "We believe the U.S. dollar is weaker today to the euro following changing perceptions toward reduced eurozone risks, and we believe this trend will continue through the first quarter of 2013," Winmill of Midas Fund wrote.

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