The Price of Gold

Gold analysts are bearish for a second week as prices head for the biggest monthly drop since June and approach this year's low on speculation the Federal Reserve will curb stimulus as the economy strengthens.

Eighteen analysts surveyed by Bloomberg News expect prices to fall next week, nine are bullish and three neutral. The metal slipped 6 percent this month and is within 5.4 percent of the 34-month low of $1,180.50 an ounce set in June. Gold is poised for its first annual drop since 2000.

Bullion slid this year as some investors lost faith in the metal as a store of value, forcing mining companies to make at least $26 billion of writedowns and billionaire John Paulson to say he wouldn't personally invest more in his gold fund. U.S. data this week showed jobless claims unexpectedly fell and leading economic indicators rose for a fourth month. Fed minutes signaled Nov. 20 that policy makers expected an improving economy to warrant trimming debt purchases in coming months.

"You don't need it as a safe haven," said John Stephenson, who helps oversee about C$2.8 billion ($2.65 billion) at First Asset Investment Management Inc. in Toronto. "The prevailing view on Wall Street is that the world is getting better. Now what the Fed is musing is that they're going to start tapering."

Gold's Decline

Bullion slumped 26 percent to $1,244.03 this year in London, reaching $1,225.55 on Nov. 25, the lowest since July 8. The Standard & Poor's GSCI gauge of 24 commodities dropped 4 percent since the end of December, while the MSCI All-Country World Index of equities gained 18 percent. The Bloomberg U.S. Treasury Bond Index lost 2.3 percent.

Gold rose 70 percent from December 2008 to June 2011 as the U.S. central bank pumped more than $2 trillion into the financial system, increasing concern about faster inflation and a weaker dollar. The Fed will pare monthly asset purchases to $70 billion, from the current pace of $85 billion, at its March 18-19 meeting, according to the median of economist estimates in a Bloomberg News survey earlier this month.

The Bloomberg U.S. Dollar Index, a measure against 10 major currencies, climbed 8.1 percent since gold reached a record $1,921.15 in September 2011 while global equities rallied to the highest since January 2008 last week. The Conference Board said Nov. 27 its gauge of the U.S. economic outlook for the next three to six months increased 0.2 percent in October. Economists surveyed by Bloomberg News had called for no change.

ETP Sales

Investors dumped as much gold from exchange-traded products this year as they purchased in the previous three years, data compiled by Bloomberg show. They sold 789.3 metric tons since the start of January, pushing holdings to the lowest since March 2010 and wiping $68.1 billion from the value of the funds.

Paulson, who owns the largest stake in the SPDR Gold Trust, the biggest gold ETP, told clients last week that he personally wouldn't invest more money, according to a person familiar with the matter. Paulson, who maintained his SPDR position in the third quarter after cutting holdings by 53 percent in the previous three months, lost 63 percent year-to-date in his PFR Gold Fund, said the person.

Gold jumped as much as 21 percent in the two months through August as lower prices boosted jewelry, bar and coin purchases, particularly in Asia. Volumes for cash gold of 99.99 percent purity traded on the Shanghai Gold Exchange climbed this week to the most since the end of September, bourse data show.

Chinese Demand

China's net imports of gold from Hong Kong reached 129.9 tons in October, the second highest on record, government data show. Chinese consumer demand for the metal rose 30 percent in the 12 months through September, according to the World Gold Council. That puts it on track to overtake the top consumer India, where purchases gained at a slower rate of 24 percent amid government import restrictions.

Prices are "beginning to look oversold," said Jonathan Butler, a precious metals strategist at Mitsubishi Corp. International (Europe) Plc in London. The metal's 14-day relative-strength index fell below 30 last week, a level that suggests to some analysts using technical charts that the price may be poised to rebound. The gauge was at 34.1 yesterday.

Hedge funds and other speculators cut bets on price gains by 56 percent since the end of October, U.S. Commodity Futures Trading Commission data show. They held a net-long position of 44,291 contracts in the week to Nov. 19, the lowest since July 9. Goldman Sachs Group Inc. sees prices at $1,110 in 12 months.

The S&P GSCI gauge of raw materials rose as much as 5.4 percent and lost as much as 7.8 percent this year. U.S. economic growth will accelerate to 2.6 percent in 2014, from 1.7 percent this year, economist estimates compiled by Bloomberg show. China, the biggest user of industrial metals, will expand 7.45 percent next year, compared with 7.6 percent in 2013.

“We have a quite sideways view on commodities,” said Bjarne Schieldrop, the chief commodity analyst in Oslo at SEB AB. “There’s stronger growth in 2014 than 2013, but it is the U.S. that is accelerating, while the commodity elephant China will have more sideways growth.”