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Gold May Extend Rally on Growing Jewelry Demand, Survey Says

Sept. 19 (Bloomberg) -- Gold, trading at its highest price since 1988, shows no sign of retreating as production fails to keep pace with jewelry demand and investors buy bullion for a hedge against inflation, a Bloomberg survey showed.

Thirty-four of 49 traders, investors and analysts surveyed Sept. 15 and Sept. 16 from Seoul to New York advised buying gold, which last week reached $464 an ounce, the highest since June 1988. Eight respondents recommended selling the metal, and seven were neutral.

Supply from mines and recyclers will fall short of demand this year by 14 percent, or 459 metric tons, up from a deficit of 35 tons last year, Citigroup Inc. said Sept. 15. Gold prices are up 14 percent in the past year as jewelry demand soared in India, China and Turkey, and the record-high cost of oil sparked concern inflation will accelerate.

``Sure, gold is at a 17-year high, but we are well off the $700 figure seen in 1980,'' said John Licata, a 32-year-old independent market analyst in New York who has about 20 percent of his money in gold equities. ``Just like crude oil doubled within a year, as investors started valuing the demand level as well as making 1980s inflation comparisons, I believe gold prices will skyrocket next year and end 2005 around $500.''

Gold futures for December delivery rose $10.30, or 2.3 percent, to $463.30 last week on the Comex division of the New York Mercantile Exchange, after the majority of analysts surveyed Sept. 8 and Sept. 9 predicted a gain. Bloomberg's survey has forecast the direction of prices accurately in 39 of 69 weeks, or 56 percent of the time.

Production Deficit

Mining output, which fell to an eight-year low of 2,464 tons in 2004, will be little changed this year at 2,495 tons, while jewelry demand climbs 7.1 percent to 2,801 tons, London-based researcher GFMS Ltd. forecast in a Sept. 14 report. Investors, who sold a net 76 tons of gold last year, are expected to make net purchases of 43 tons, with most of the buying in the second- half of this year, GFMS said.

``I have not seen a better fundamental atmosphere for gold since the early 1980s,'' said William O'Neill, a partner at Logic Advisors LLC in Upper Saddle River, New Jersey. ``This metal is increasingly being viewed as an asset class and an alternative asset. It is also a flight-to-safety vehicle and an inflation hedge.''

Gold futures climbed to $873 an ounce in 1980, when U.S. consumer prices rose than more than 12 percent from the previous year. Last month, U.S. consumer prices rose at an annual rate of 3.6 percent, the Labor Department said last week.

Central Banks

European central banks, which helped to fill the global supply deficit by selling gold from their reserves, said Aug. 19 that they had already exceeded their 500-ton maximum for sales in the year ending Sept. 27. ``In theory, the central banks should be out of the gold market,'' said Paul Yusem, a Lombard, Illinois, gold investor.

The central bank of Argentina may buy gold as a hedge against inflation and to protect it against financial crises, Juan Ignacio Basco, the bank's head of market operations, said Sept. 14. Mongolia and Kazakhstan were already buyers in the first six months this year, said Bruce Alway, a GFMS analyst.

``If more central banks or governments actually start purchasing gold, we will have a whole new ballgame in the gold market,'' Yusem said.

Gold is up 4.8 percent in the three weeks since Hurricane Katrina touched land on Aug. 29, causing crude oil prices to surge to a record $70.85 a barrel on Aug. 30. In a separate survey, 22 of 56 analysts said oil will gain this week on concern output in the Gulf of Mexico may take longer than expected to resume after shutdowns caused by Katrina.

Inflation Concern

Ten-year U.S. Treasuries fell last week, pushing yields to a four-week high on concern inflation will accelerate.

``Seventeen-year highs are impressive, with the bond market showing us that inflation will be returning with a vengeance,'' said Leonard Kaplan, president of Evanston, Illinois-based Prospector Asset Management, who had been negative on gold since April. He expects prices to rise this week.

Gold has a positive technical outlook as well, said Daniel Chesler, an independent analyst in Wellington, Florida, who studies historical price patterns. ``Right now the probabilities favor'' a higher gold price, he said. Chesler is the most accurate forecaster tracked in the weekly Bloomberg survey, after correctly predicting the direction of prices 69 percent of the time.

Fed, Dollar

The biggest risk to a drop in prices this week is the dollar, which may rally if the Federal Reserve boosts interest rates tomorrow, said Michael Martin, a trader at R.F. Lafferty & Co. in New York. ``A dollar rally would likely be temporary given all the fundamental weight on the currency,'' he said.

Since the Fed starting to raise rates in June 2004, gold has climbed five times and dropped five times on the day after each of the 10 rate increases. Economists expect the Fed to raise their benchmark U.S. lending rate tomorrow by a quarter-point to 3.75 percent.

Some large commodity funds may decide to sell gold to lock in profits from the rally before the end of the third quarter, said John Person, president of Nationalfutures.com Advisory Services Inc., a research company in Palm Beach, Florida. Gold has climbed 6 percent in the third quarter, heading for the biggest quarterly gain since July through September in 2003.

Hedge-fund managers and other large speculators increased their net-long position in New York gold futures by 10 percent in the week ended Sept. 13, the U.S. Commodity Futures Trading Commission said Sept. 16.

Speculative long positions, or bets prices will rise, outnumbered short positions by 126,798 contracts on the Comex, up 11,546 contracts from a week earlier.

A futures contract is an obligation to sell or buy a commodity at a set price by a specific date.

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Last Updated: September 18, 2005 14:36 EDT

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