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Gold Must Exceed $2,000 to Be Considered in a Bubble, Deutsche Bank Says

By Tony C. Dreibus - Jan 11, 2011

Gold would have to exceed $2,000 an ounce to be considered in a bubble, and the metal will gain this year on investment in exchange-traded funds and central-bank buying, Deutsche Bank AG said.

Gold will "perform strongly" on investor demand and low real interest rates in the U.S., Michael Lewis, London-based head of commodities research at Deutsche Bank, said in a report today. A bubble may form because investors are buying gold as a hedge against both inflation and deflation, he said.

"Given these risks, we believe gold will continue to compete aggressively for investment capital," Lewis said. "On our estimates, the gold price would need to move above $2,000 to represent a bubble."

Bullion for immediate delivery climbed $6.43, or 0.5 percent, to $1,382.10 an ounce at 11:45 a.m. London time. Prices rose yesterday, ending a string of five declines, on concern that Europe's sovereign-debt crisis may worsen. Gold for February delivery climbed 0.6 percent to $1,382.20 on the Comex in New York.

Expanding emerging-market economies will help to boost commodity prices this year, Lewis said, along with Federal Reserve efforts to stoke U. S. growth, containment of European sovereign-debt risk and tighter inventories. He pointed to metal, energy and agriculture futures as a way to gain emerging- market exposure and hedge against higher inflation.

Cotton, Soybeans

Demand from China will support prices of coal, silver, soybeans and cotton, according to Lewis. The country is the world's largest consumer of cotton, coal and soybeans as well as industrial metals. The "underlying growth outlook in China remains positive" even as officials tighten monetary policy, he said.

The start of an ETF backed by physical copper enables investors to compete with manufacturers and may make the metal's price more difficult to forecast by stoking demand, according to Deutsche Bank. ETF Securities Ltd. last month introduced the world's first exchange-traded products backed by copper, nickel and tin.

"We view copper as the market most susceptible to price- spike risk if these new products attract an increasing share of investment capital," Lewis said.

Dry weather in South America and low inventories are bullish for corn and soybeans, and iron-ore supply will fall short of demand because of an export ban in India and infrastructure bottlenecks in Brazil and Australia, according to the report.

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