



DJ UPDATE: Gold Rallies On Weaker Dollar, Inflation Expectations

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By Matt Whittaker
Of DOW JONES NEWSWIRES

NEW YORK (Dow Jones)--Gold futures have extended strong gains as the U.S dollar falls further and the Fed's interest rate cut is prompting buying in the metal as a hedge against inflation.

At 10:28 a.m. EST (1528 GMT), the most-active February gold contract was up \$34.20, or more than 4%, at \$876.90 an ounce on the Comex division of the New York Mercantile Exchange. The contract has extended its two-month high to \$883.60.

"The dollar's just getting crushed," said Pat Donnelly, senior broker with Peak Trading Group.

The ICE Futures U.S. dollar index is down more than 2.1%.

The greenback took a hit after the Federal Reserve on Tuesday slashed its interest rates to a 0%-0.25% range and paved the way for quantitative easing.

The weaker dollar after the Federal Reserve's interest-rate cut is supporting gold and other precious metals, a trader said.

Gold, as a dollar-denominated asset, is seen as a hedge against a weakening U.S. dollar.

Gold is not only rallying on the continuing weakness in the dollar. It is also acting in its role as an inflation hedge as participants see prices rising longer term if the Fed rate cut stimulates the economy.

"They're thinking probably long-term you will have more inflation," George Gero, vice president with RBC Capital Markets Global Futures, said of gold buyers at the moment.

Silver futures are surging on the same dollar weakness that is supporting gold prices. But silver is outperforming gold in percentage terms because it has "been so oversold" recently, Donnelly said.

Comex March silver is up 80.5 cents, or more than 7.5%, at \$11.51 an ounce. Silver was "due for a rally," Donnelly said.

Further, silver often moves in greater percentage swings than does gold because silver's market is smaller, exacerbating the price impact of buying or selling.

With economic weakness, however, Donnelly doesn't expect silver's gains to hold because of demand destruction. Silver's industrial uses include applications in the electronics industry.

-By Matt Whittaker, Dow Jones Newswires; 201-938-5959;
matt.whittaker@dowjones.com

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