



Gold Rising as Euro Weakens Spurs More Speculation (Update2)

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By Nicholas Larkin, Claudia Carpenter and Millie Munshi



May 24 (Bloomberg) -- Speculators are buying gold faster than the world's biggest producers can mine it as analysts forecast a 27 percent rally that may extend the longest run of annual gains since at least 1920.

Exchange-traded products backed by bullion added 41.7 metric tons in the week to May 14, the most in 14 months, data from UBS AG show. China, Australia and the 15 other largest mining nations averaged weekly output of 41.6 tons last year, researcher GFMS Ltd. estimates. Even though prices have fallen 5.1 percent to \$1,185.30 from a record \$1,249.40 an ounce May 14, the median in a Bloomberg survey of 23 traders, analysts

and investors shows it will reach \$1,500 by the end of the year.

Buying accelerated as the MSCI World Index of 23 developed nations' [stocks](#) tumbled as much as 16 percent since mid-April and the euro weakened to a four-year low against the dollar. Holders of ETPs, including [George Soros](#) and [John Paulson](#), accumulated a record 1,938 tons by May 21, eclipsing all but four of the biggest central-bank holdings.

"You could see gold go up another \$1,000," said [Evan Smith](#), who helps manage \$2 billion at U.S. Global Investors Inc. in San Antonio and in 2006 correctly predicted that gold would reach \$700 within two years. "All of the turmoil and problems we've seen in Europe is just another reminder that there's a lot of value in gold as a safe haven."

The risk to gold bulls lies in economic growth, which should buoy the prospects of metals linked to industrial demand, such as copper and [silver](#). The world economy will expand 4.2 percent this year, the International Monetary Fund said April 21, raising its January projection from 3.9 percent.

Industrial Metals

Astor Asset Management LLC, with \$520 million under management, held as much as 10 percent of its assets in the SPDR Gold Trust, the biggest ETP backed by bullion, according to [Bryan Novak](#), managing director of the Chicago-based company. The firm sold the stake in the first quarter.

China, the biggest consumer of industrial metals, will expand 10.1 percent this year, more than three times the pace of the U.S.'s anticipated 3.2 percent gain, according to as many as 77 economists surveyed by Bloomberg.

"The feeling now is as we move into the expansion phase of economic growth, we want to be diversified in economically sensitive metals," Novak said. "We're not negative on the economy now."

'Afraid of Debasement'

While gold is favored by investors when the dollar weakens and inflation gains, the metal can also advance at other times. Gold rose 5.8 percent in 2008 as U.S. consumer prices gained 0.1 percent. The metal added 18 percent in 2005 when the [U.S. Dollar Index](#), a measure against six counterparts, advanced 13 percent. Gold rose 8 percent this year as the U.S. Dollar Index jumped 11 percent. U.S. consumer prices dropped in April.

"People are afraid of the debasement of all the currencies," said [Peter Schiff](#), president and chief global

strategist for Darien, Connecticut-based Euro Pacific Capital, whose clients have more than \$2 billion in assets. "What's surprising is that gold is still as low as it is," he said, predicting \$5,000 to \$10,000 an ounce in the next five to 10 years.

Since the last week of April, ETPs have been adding bullion at a pace not seen since the first quarter of 2009, in the wake of the collapse of Lehman Brothers Holdings Inc. Buying rose as European policymakers agreed on an almost \$1 trillion emergency loan package to prevent sovereign defaults.

Half the Peak

Assets in gold-backed products increased 18.3 tons last week, according to UBS data. The bank revised its estimate for the previous week's holdings.

Gold is still at half the peak set in 1980, after adjusting for inflation. Then, prices rose to \$850, equal to \$2,266 today, according to a calculator on the website of the Federal Reserve Bank of Minneapolis.

Supply from mines, which peaked in 2001, fell in five of the last eight years, data from London-based GFMS show. Companies are digging deeper to extract dwindling reserves, with mines in South Africa extending as far as 2.35 miles (3.8 kilometers) down.

Investment, including bars and coins, almost doubled to 1,901 tons last year, exceeding jewelry demand for the first time in three decades, according to GFMS. Jewelry will jump 19 percent to 2,100 tons this year and industrial use 8 percent to 398 tons, Sydney-based Macquarie Group Ltd. says.

Central Banks

Muenze Oesterreich AG, the Vienna-based mint that makes the Philharmonic, the best-selling gold coin in Europe and Japan, on May 12 said it had sold 243,500 ounces since April 26, more than the 205,300 ounces sold in the entire first quarter.

Central banks and governments are also buying gold, adding 425.4 tons last year, for a combined 30,116.9 tons, the most since 1964 and the first expansion since 1988, data from the World Gold Council show. **Official reserves** of central banks and governments may expand by another 192 to 289 tons this year, according to CPM Group, a research and asset-management company in New York.

The **net-long** position in Comex futures, or bets on higher prices, is within 13 percent of the record reached in November, U.S. Commodity Futures Trading Commission data show. The most widely held option gives owners the right to buy gold at \$1,500 an ounce by December, data from the bourse in New York show.

Economists' outlook may be too rosy, said **Michael Pento**, chief economist at Delta Global Advisors in Holmdel, New Jersey, who correctly predicted the 2008 commodity collapse. Some investors judge that a debt crisis in Greece may spread elsewhere in the euro zone, including Spain and Portugal.

Billionaire Managers

"The second half of this year will likely show very anemic growth on a global basis," he said. "The crisis in Greece is going to spread to Spain and it's going to be very difficult to deal with. They are bailing out debt with more debt and it isn't sustainable. It's a wonderful scenario for gold."

Billionaire John Paulson's New York-based Paulson & Co. hedge fund is the SPDR gold trust's **biggest investor**, with 31.5 million shares, or about 96 tons, a May 17 regulatory filing showed. **Kyle Bass**, the head of Dallas-based Hayman Advisors LP who made \$500 million in 2007 on the U.S. subprime collapse, bought gold this month, according to a letter to clients.

Buying at the start of a bubble is "rational," Soros said in January. His New York-based Soros Fund Management LLC was the sixth-biggest investor in the SPDR fund in the first quarter, a May 17 filing with the Securities and Exchange Commission shows. He trimmed his holding by 9.6 percent from the previous quarter.

"People still want a store of wealth," said **Andrew Karsh**, co-manager of funds for the Credit Suisse Total Commodity Return Strategy team. "A lot of the fundamentals are still in place."

To contact the reporters on this story: **Nicholas Larkin** in London at nlarkin1@bloomberg.net; **Claudia Carpenter** in London at ccarpenter2@bloomberg.net; **Millie Munshi** in New York at mmunshi@bloomberg.net.

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