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PRECIOUS-Gold rises on dollar drop; investment demand scant

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MARKETS-PRECIOUS (UPDATE 6)

* Wilting dollar helps commodities recover

* Safe-haven demand could reemerge if economy worsens

* Chinese car sales jump 47.7 pct in June, boost platinum (Recasts, updates prices, market activity to close; new byline, changes dateline, pvs LONDON)

By Frank Tang

NEW YORK, July 9 (Reuters) - Gold futures ended higher on Thursday as the slumping dollar boosted bullion's appeal as a currency hedge, but weak investment demand amid lower inflation expectations could send prices lower.

Even with the stock market weakened by economic worries, bullion has failed to rise. Muted inflation concerns have sent flight-to-quality buying into U.S. Treasuries and the dollar.

Thomas Winmill, portfolio of Midas Fund in New York, said gold's weakness was similar to the widespread selling of all asset classes into the U.S. Treasury bonds market in 2008.

"If the economic pessimism continues, I would expect gold to recover like the way it did before in 2008," Winmill said.

A flight to quality could still boost gold in the future, but a lack of imminent inflation signals has been weighing on the metal's appeal as a hedge, market watchers said.

U.S. August futures settled up \$6.90 at \$916.20 an ounce on the COMEX division of the New York Mercantile Exchange.

Spot gold traded at \$915.80 an ounce at 2:25 p.m. EDT (1825 GMT), against \$908.45 an ounce late in New York on Wednesday, when gold sold off in line with other commodities on fears of stricter U.S. government regulation of markets.

The dollar fell sharply, giving back some of Wednesday's gains as investors ventured back into equities, denting interest in the currency as a haven from risk.

Stock markets edged higher after a five-day losing streak, industrial commodities such as oil and base metals gained and currency markets became less cautious, suggesting heavy risk aversion may be abating.

Demand for gold investment products such as exchange-traded funds -- a major support of prices earlier in the year amid volatility in other markets -- remained sluggish, however.

Holdings of the world's largest gold ETF, the SPDR Gold Trust, declined more than 10 tonnes on Wednesday, while those of ETF Securities' ETFS Physical Gold product slipped 12,500 ounces 0.4 percent.

OUTPUT FALLS

In supply news, South Africa, the world's third largest gold miner after China and the United States, said its output of the metal fell 10.5 percent in May from a year ago.

Among other precious metals, platinum was at \$1,106.50 an ounce against \$1,096, while palladium was at \$234.50 against \$231.50. Both metals are used primarily in car manufacturing as a component in catalytic converters.

Traders of palladium in particular were cheering news from China that its passenger car sales rose 47.7 percent in June from a year earlier.

Chinese cars are usually petrol-fueled, meaning they use a higher proportion of palladium than platinum, which is a primary component in diesel catalysts.

Elsewhere silver was at \$12.89 an ounce against \$12.84. (Additional reporting by Jan Harvey in London; Editing by David Gregorio)

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