Gold Prices Circle $1,900 as Investors Seek Safety

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NEW YORK (TheStreet) -- Gold prices were closing in on $1,900 an ounce Monday on rampant safe-haven buying and as Japan threatened to intervene in the currency market.

The rally has defied calls from traders, strategists and experts who are still expecting upwards of a 20% correction.

Gold for December delivery was popping $11.20 at $1,863.40 an ounce at the Comex division of the New York Mercantile Exchange, although trading well off earlier highs. The gold price has traded as high as $1,898.60 and as low as $1,858 while the spot gold price was adding $7.90, according to Kitco's gold index.

Silver prices were up 38 cents at $42.81 just shy of its early morning high of $44 an ounce. The U.S. dollar index was down 0.14% at $73.90 while the euro was flat vs. the dollar.

Gold prices continued to strengthen Monday as Goldman Sachs (GS) was the latest investment bank to cut U.S. growth targets for the rest of 2011, to 1% and 1.5% for the third and fourth quarter, respectively. Morgan Stanley, JPMorgan Chase (JPM) and Citigroup (C) had all cut their growth targets last week.

Also helping gold was news that the Bank of Japan might again intervene in the currency market to help curb a rising yen, which is hurting the country's exports and growth prospects. Whenever governments mess with currencies it reminds investors of the...
fragility of paper money and helps gold shine as a stable currency.

Although gold prices were still high, they were a far cry from their $30 rally in early trading, which had pushed prices to nearly $1,900 an ounce. George Gero, senior vice president at RBC Capital Markets says that there could be a "re-allocation of assets by portfolio managers" if the stock rally lasts and could provide a setback for gold prices. Most strategists are still clamoring for a big correction.

Tom Winmill, portfolio manager for the Midas Fund, is looking for a $150 selloff in gold. "I think fundamental information was spooking the [stock] market [so] to the same extent if there was positive news there could be a reversal ... for that we need surprising news about growth in the economy and jobs." If stocks stabilize, then there could be a mass rotation out of gold - the anti-fear premium.

For the longer term, Winmill is bullish on gold, arguing that the metal's $300 rally in 5 weeks is just a dress rehearsal of what will happen in the first quarter of 2013 "then I think the gold price could go haywire."

Winmill thinks that Washington's special committee won't be able to come to a deficit reduction deal by the end of 2011 which will trigger broad budget cuts, further debt negotiations and the eventual end of the Bush era tax cuts -- all of which will point to a time of great uncertainty in the market. "This is a walk through ... and that will be a time of massive political impasse and the gold price could go way up if this market comparison is any indication ... I think gold will serve a psychological need at that time."

Mark Arbeter, chief technical strategist at Standard & Poor's, also a long-term gold bull, is calling for a correction as well. "Gold is extremely overbought ... Bullish sentiment is at the highest level in over three years ... We think gold could drop into the 1,450 to $1,550 an ounce range in the coming months."

Gold mining stocks rose Friday along with the gold price. Barrick Gold (ABX) was up 1.80% to $50.78 while Newmont Mining (AUY) popped 2.84% at $60.09. Other gold stocks, Randgold Resources (GOLD) and Goldcorp (EGO) were trading higher at $109.99 and $51.65, respectively.

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--Written by Alix Steel in New York.

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