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Could gold repeat another double digit rise in 2012?

By Debbie Carlson

Like a prizefighter who has taken a few upper cut blows, gold might be a bit woozy, but the metal's longer-term uptrend is hardly on the ropes. As in many financial sectors, gold's price direction has been guided by headlines, particularly out of Europe on the sovereign d situation, and the volatility caused by swiftly changing news has made many markets a bit punch-drunk.

The December price break for gold came as several events aligned. First, the market was never able to retest its all-time nominal high August of $1,923.70 an ounce. Second, gold was one of the few star performers this year and when equity and other markets soured, money managers needed to raise cash to meet margin calls and shore up positions elsewhere. Third, with investors spooked by the continued inability for eurozone leaders to convincingly shore up their union, these investors sought safety in the most liquid vehicle available – cash – again pulling profits from gold.

Gold might be down about 16% from the August highs, but it's still up roughly 14% from the 2010 settlement of $1,421.40, basis the nearby futures, which still makes it one of the best performers this year.

The yellow metal may be in a consolidation mode for the time being, resting and building a base to rally again, just like that prizefighte whose corner man keeps him in shape to go the distance.

Market watchers said the structural strength for gold remains intact, with most Western nations' global interest rate policies falling or n zero, which makes the opportunity cost of holding gold negligible. The sovereign debt crisis in Europe still makes people nervous abou holding fiat currencies. With the amount of liquidity floating around from quantitative easing programs from central banks like the Fede Reserve, fears that when the global economy starts to show decent growth again it will be difficult to rein in that stimulus.

Mark Leibovit, editor the VRTrader newsletter, said he remains overall bullish, but concedes the washout gold experienced in early December has done damage to technical charts.

"We might hit bottom in a month or so. How far it might go depends on how the technicals unfold. Short-term it's held the September lo of $1,531. But we have to see it perform in both time and price to confirm it. What might it take do so? We'd need to see the equity ma improve, Europe improve, and maybe a QE3," he said, referring to a possible third quantitative easing by the Federal Reserve.

Leibovit said it's possible that gold prices could have further room to fall, especially if a scenario unfolds like what happened following bankruptcy of Lehman Brothers in September 2008. Price were already in a downdraft prior to the Lehman news, but a month later go fell as far as $681, basis a front-month continuation futures chart.

This could happen if gold prices take out the $1,531 level, he said. In 2008 there was a 34% correction for gold. Based on that calculation, prices could drop to $1,270, Leibovit said.

Gold rebounded after the trip to sub-$700, but he pointed out that it still took about six months to confirm the bottom.

"We could see gold's bottoming take anywhere from two to 12 months. But the bull market is still intact; we've seen these moves befor think longer term $3,000 or $4,000 gold is possible in an inflationary environment," he said.

BNP Paribas, which updated its precious metals forecast for 2012 on Dec. 20 to reflect the recent selloff, downgraded its outlook for g prices by $250 an ounce to $1,775. The bank says "with high uncertainty likely to remain a major feature of the markets, gold could be vulnerable to further episodes of price correction." However, they do not believe the bull market is over and are "still positive towards t gold price in 2012 and 2013."

Sterling Smith, commodity trading adviser and senior market analyst at Country Hedging, said gold is putting in a bottom now, but said will likely trade "sideways" for a while. The fundamentals for gold have not changed, he said.

"The EU problems will lead to some QE there and here maybe more mortgage-backed securities buys (by the Federal Reserve). If tha happens, then it will help gold rise. Gold is still an asset; central bank buying will push it higher. Look six to nine months down the line and we can see gold back at $2,000," he said.

While gold might benefit from any safe-haven buys at these lower price levels, the worries about Europe moving into a recession coul cause the metal to be trapped in a tug-of-war, said Bob Siegel, president Cabot Capital Group, a money management firm.

"I see it range bound because it's struggling to compete with the huge global concern that is the EU and the dampening effect on commodities. If it gets to be a depression (in Europe) it could get out of hand. Gold in the end is the ultimate store of value, though it is not as strong as some think it should be," he said.

Gold is plagued by competing influences. The EU woes supports gold, but investors who seek liquidity pressure the metal, he said.

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In a word: sure. But much depends on the strength of the dollar, physical demand out of Asia and any new crises that may develop.

The forecast for gold to return to seeing a "two" as the front number in 2012 is shared by several investment banks. Morgan Stanley, Securities, Bank of America-Merrill Lynch and SEB Merchant Banking are among some of the banks who see gold either averaging above $2,000 or at least trading to that level at some time during next year.

Based on gold prices around $1,600, a move to $2,000 would be about a 23% rise.

Leibovit said he sees inflation coming down the road, the question is, "when does it kick in?" Gold could continue to weaken into Janu but he said gold investors need to consider a longer term view than six months or even a year. They should be taking at least a three five year perspective.

Tom Winmill, portfolio manager of the Midas Fund, said there's a good chance for gold to see another strong year.

"It's very possible that it can be very strong year after year after year. We think the key component to gold is that it's denominated in dollars. How high it can go will be dependent on how much money is created. With the two QEs, $2.2 trillion was created. There will b more money created down the road…. We (the U.S.) will be adding more money because we are borrowing. The borrowing represent the future creation of new money," he said.

For 2012, Winmill is forecasting $1,950 by the end of the year, with a high of $2,200 and a low of $1,650.

The low interest rate environment is important to the gold outlook, Winmill said. "You can't view rates in a vacuum – at Midas we view inflation rate next to the real yield…. The two-year bonds yield is 25 basis points. The 12 month CPI is (3.2%), so the negative real rat (3%). That is destroying savings. Our view is as people become more aware of the destruction of wealth they will there will be a stampede into hard assets – gold, diamonds, real estate," he said.

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