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Hedge Funds Reduce Gold Bull Bets Amid Record Outflows

By Joe Richter - Dec 23, 2013

Hedge funds got less bullish on gold before prices dropped to the lowest level since 2010, leaving the metal poised for the worst annual loss in 32 years as investors dump bullion at a record pace.

Money managers reduced their net-long position by 2.8 percent to 32,524 futures and options in the week ended Dec. 17, U.S. Commodity Futures Trading Commission data show. Short holdings climbed 1.2 percent to 75,199, within 6 percent of the record reached in July. Net-bullish holdings across 18 U.S.- traded commodities rose 8.5 percent to a seven-week high, led by soybeans, natural gas and cotton.

Investors pulled $38.8 billion from gold funds this year, the most in data going back through 2000, according to EPFR Global, a research company. Futures settled at a three-year low on Dec. 19 in New York, a day after the Federal Reserve cut the pace of its monthly bond purchases. Prices plunged 37 percent since reaching a record in September 2011, U.S. equities climbed to an all-time high and the dollar is poised for its strongest annual performance since 2008.

“Gold was probably one of the easiest shorts of all time,” said Uri Landesman, the president of New York-based hedge fund Platinum Partners who helps manage about $1.3 billion of assets. “It has fallen out of favor because people felt its general security wasn’t needed in this market. People wanted to take on risk this year.”

More Declines

Bullion reached $1,186 an ounce on Dec. 19, within $6.60 of this year’s low reached in June. Thirteen analysts surveyed by Bloomberg News expect gold to fall this week, 10 are bullish and four neutral. That’s the fourth bearish outlook in five weeks.

Futures slumped 29 percent this year to $1,197 an ounce, poised for the first loss since 2000. The Standard & Poor’s GSCI gauge of 24 commodities slid 1.7 percent, while the MSCI All-Country World index of equities jumped 19 percent. The Bloomberg Dollar Index, a gauge against 10 major trading partners, rose 3.4 percent. The Bloomberg Treasury Bond Index fell 2.9 percent.

Gold "is now likely to grind lower throughout 2014," Jeffrey Currie, the head of commodities research at Goldman Sachs Group Inc. in New York, said in a telephone interview Dec. 19. Prices will reach $1,050 by the end of 2014, the bank said in a Nov. 20 report. Societe Generale SA and Bank of America Merrill Lynch are also forecasting more declines.

Fed Taper

The Fed said on Dec. 18 it will cut monthly asset purchases, known as quantitative easing, to $75 billion from $85 billion. Policy makers raised their assessment of the employment outlook, predicting the jobless rate will fall as low as 6.3 percent by the end of next year, compared with a September forecast of 6.4 percent to 6.8 percent.

Gold rose 70 percent from December 2008 to June 2011 as the U.S. central bank pumped more than $2 trillion into the financial system by purchasing debt, increasing concern that inflation would accelerate.

Accelerating economic growth may eventually bring higher consumer prices and revive demand for gold as a hedge against inflation, said Tom Winmill, who helps manage about $250 million of assets in Walpole, New Hampshire, for Midas Funds.

Policy makers may hold interest rates near zero percent even if unemployment falls below the 6.5 percent rate the central bank previously cited as a likely catalyst for an increase, "especially if projected inflation continues to run below" the 2 percent goal, the Fed said in its statement.

'Exceedingly Bullish'

"We expect that as the economy recovers, which is the reason they're tapering, inflation will come back," Winmill said. "The long-term outlook is exceedingly bullish for gold."

Prices fell after some investors lost faith in precious metals as a store of value. Bullion held in exchange-traded products plunged 32 percent in 2013, heading for the first decrease since the funds started trading in 2003. The slump wiped $72.7 billion from the value of the assets.

Global equities have advanced to the highest in almost six years, and U.S. inflation is running at 1.2 percent, almost half the rate of the past decade. U.S. gross domestic product climbed at a 4.1 percent annualized rate in the third quarter, the strongest since the final three months of 2011, Commerce Department data showed Dec. 20.

Record Outflows

Withdrawals from gold ETPs are driving record outflows of $36.3 billion from commodity investments, according to Barclays Plc. Assets under management declined $88 billion since the start of the year through last month, the bank said in a report Dec. 17. Excluding withdrawals from precious-metal ETPs, commodities had an inflow of $4 billion.

Bullish bets on crude oil climbed 0.3 percent to 252,910 contracts, the highest since mid-October, the CFTC data show. U.S. fuel consumption surged 13 percent to 21 million barrels a day as of Dec. 13, the highest since April 2008, an Energy Information Administration report on Dec. 19 showed.

Speculators are holding a net-long position in copper of 20,688 contracts. That compares with a net-short holding of 1,223 a week earlier. Stockpiles monitored by the London Metal Exchange have fallen to the lowest since February. U.S. housing starts jumped in November to the highest since February 2008, data from the Commerce Department showed Dec. 18. Builders put about 400 pounds (181 kilograms) of copper into the average home.

Farm Bets

A measure of speculative positions across 11 agricultural products slid 8.4 percent to 245,071 contracts, the CFTC data show. Investors increased their bearish wheat outlook to a record as global production is estimated by the U.S. government to reach an all-time high. The funds got more bullish on soybeans.

Temperatures in Argentina will reach as high as 105 degrees Fahrenheit (41 Celsius) in the next 10 days, increasing stress on plants with immature root systems, World Weather Inc. in Overland Park, Kansas, said in a report Dec. 20. The nation is the world's biggest exporter of oilseed-based livestock feed. Soybean futures in Chicago are heading for the biggest quarterly advance in a year.

The net-long position in cotton more than doubled to 34,293 contracts, the highest since late October. Stockpiles at warehouses monitored by ICE Futures U.S. tumbled 57 percent this year.

"The taper is a sign of better global economic growth, and that's a negative for gold," said Rob Haworth, a senior investment strategist in Seattle at U.S. Bank Wealth Management, which oversees about $112 billion of assets. "We're a minor bull on commodities over the next 12 months. We think global demand growth is a huge help. The tough part is the supply part of the equation, which will create volatility."

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