Futures and Commodity Market News

DJ PRECIOUS METALS: Comex Gold At 5-Month Low On Dollar Demand

Dec 29, 2011 (Dow Jones Commodities News via Comtex) --

--Comex February gold settles down $23.20 at $1,540.90 a troy ounce

--Continued weakness in the euro, year-end selling pressure gold

--Traders tracking market momentum turn against precious metals

--Silver hits 13-month low before late-session rebound

```
By Matt Day
   Of DOW JONES NEWSWIRES
```

NEW YORK (Dow Jones)--Gold continued its slide on Thursday as investors sought the flexibility of cash ahead of the end of the year.

The most-actively traded gold contract, for February delivery, fell $23.20, or 1.5%, to settle at $1,540.90 a troy ounce on the Comex division of the New York Mercantile Exchange, the lowest settlement price since July.

"People are piling into the dollar," said Tom Winmill, a portfolio manager with Midas Funds. "Right now, it looks like the only game in town."

On Thursday, the euro dropped to its lowest level against the dollar since September 2010 after Italy's final debt auction of the year disappointed investors.

Adding to the risk-averse attitude was news that the European Central Bank's lending to banks has increased significantly, suggesting that its recent stimulus measures may be stumbling. The ECB's balance sheet had reached a record high of EUR2.73 trillion ($3.568 trillion), and it remains to be seen whether the extra cash will reduce sovereign-debt problems.

"Capital is very tough for many financial institutions to get," said Bart Melek, head of commodity strategy with TD Securities. For banks and other investors concerned about their cash reserves, "if you had gold holdings, you'd sell it to get liquidity."

A liquidity squeeze such as the one seen during the 2008 financial crisis could force cash-strapped investors to sell their stakes in commodities, and would likely curtail the credit lines that banks make available for commodity deals.

Market participants have attributed some of gold's recent weakness to year-end positioning, as money managers with still-profitable bets on the metal cash out to juice their returns or make up for losses in other assets. The precious metal was still up by more than 11% in 2011 through Tuesday's settlement.

Gold prices this year hit a series of record highs on the way to extending its winning streak for an 11th year, making some traders reluctant to bet against the metal. But after the increased demand for dollars that has come in waves since September, the gold market's momentum has turned decisively negative. A rising dollar can hit dollar-denominated gold by making it more expensive for potential buyers using other currencies.

Futures earlier this month sank below the 200-day moving average for the first time in more than two years, sparking steep declines. Other trading cues this week, including lower volume and a declining number of outstanding contracts, has brought in more sellers.

Silver on Thursday touched its lowest levels since November 2010, before a late-session rise pushed futures to slight gains. The March-delivery contract rose 0.3% to $27.315 a troy ounce.

Platinum for April delivery settled down 1.8% at $1,366.80 a troy ounce, a fresh two-year low.

-By Matt Day, Dow Jones Newswires; 212-416-4986; matt.day@dowjones.com