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Gold Sinking as Exchange-Traded Assets Drop to 2009 Low

By Debarati Roy - May 28, 2014

After two months of treading water, gold prices are starting to sink.

Futures in New York reached a 15-week low today after investors sent U.S. equities to a record high. Assets in global exchange-traded funds backed by bullion are near the smallest since 2009, and money managers have cut their bets on a rally by a third since this year's peak in March.

Gold's slump is erasing gains from earlier this year, when increased tension between Ukraine and Russia and a winter slowdown for U.S. economic growth sent prices to their biggest first-quarter gain since 2008. Goldman Sachs Group Inc. and Societe Generale SA are predicting the metal will extend 2013's 28 percent slump. Futures have tumbled 9.1 percent from this year's high in mid-March.

"I don't see any reason for gold to go higher," James Shelton, who helps oversee $2.1 billion as chief investment officer of Kanaly Trust Co. in Houston, said yesterday. "Equities continue to be the choice of investors. Unless inflation suddenly flares up, I would bet on lower gold prices."

Gold futures in New York touched $1,256.10 an ounce today, the lowest since Feb. 7. Prices fell 2.8 percent in May, while the Standard & Poor's GSCI Spot Index of 24 commodities was little changed. The MSCI All-Country World Index of equities gained 1.5 percent this month, and the Bloomberg Treasury Bond Index advanced 0.9 percent.

Falling Volatility

Futures climbed less than 1 percent in April, and last week the metal's 30-day volatility dropped to the lowest in a year. Through May 23, futures traded in a range of about $44 this month, compared with more than $190 in the first three months of the year.

The narrow spread coupled with declines in price swings signaled that gold was poised to break out of its range, James Cordier, the founder of Optionsellers.com in Tampa, Florida, said last week. Cordier said he sees futures falling to $1,150 by the end of the year.

Investors cut their bullish positions on gold for a second straight week, to 90,358 contracts as of May

20, U.S. government data show. Short holdings have more than doubled since mid-March. Assets in bullion ETPs touched 1,715.84 metric tons on May 22, the lowest since October 2009. In 2013, more than $73 billion was erased from the value of the funds.

Gold imports by India will probably rise, helping to support prices, Mike McGlone, the New York-based director of research at ETF Securities, said yesterday. The nation trailed only China last year in bullion demand. The Reserve Bank of India has allowed more companies to buy the metal from overseas.

Goldman View

While analysts at Goldman "remain bearish" on gold, "the uncertain outlook in Ukraine may continue to delay this move lower," the bank said in a report May 13. Prices are up 5.3 percent this year after Russia annexed the Crimean peninsula in March, followed by deadly clashes between pro-separatists and government forces in nearby eastern regions of Ukraine.

"Every time there is political turmoil, people will come back to gold," Tom Winmill, who helps manage about $180 million of assets in Walpole, New Hampshire, for Midas Funds, said yesterday. "Also, when the fabricators and merchants come back, there will be an upward move in prices."

Still, an accelerating U.S. economy means bullion will fall to $1,050 in 12 months, Goldman forecasts. American orders for long-lasting goods such as appliances unexpectedly rose in April after a gain the prior month that was stronger than previously estimated, Commerce Department data showed yesterday.

Paulson's Stake

Holdings in global gold ETPs slumped 869 tons in 2013, data compiled by Bloomberg show. An additional 100 tons may be withdrawn this year, Barclays Plc forecasts.

Billionaire John Paulson's Paulson & Co. held its position in the SPDR Gold Trust at 10.23 million shares in the first quarter, a government filing showed this month. The firm is the largest investor in the trust, the biggest bullion ETP, and has left its stake unchanged for three consecutive quarters.

The Federal Reserve pared its monthly asset buying to $45 billion in April, its fourth straight $10 billion cut. Gold climbed 70 percent from December 2008 to June 2011 as the central bank bought debt and held borrowing costs near zero percent.

"The macro climate is not conducive for higher prices," Kevin Caron, a Florham Park, New Jersey-based market strategist at Stifel Nicolaus & Co., which manages about $160 billion, said yesterday. "There is less concern about safety of the financial system, so people don't need a hedge asset."

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