

Welcome respite for gold investors

starb12
03/04/09
ms B2

By IZWAN IDRIS

izwan@thestar.com.my

PETALING JAYA: Gold may have lost a bit of its lustre in the past weeks, as investors swapped their safe haven holdings for bargain-priced equities.

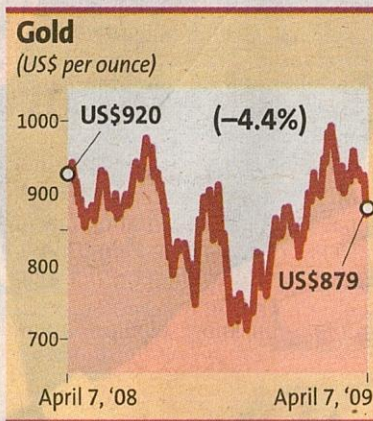
But, after a four-week rally that propelled US stocks to their steepest gains in 70 years, Hong Kong-based fund manager Dr Marc Faber told *Bloomberg* yesterday that the S&P 500 index was poised for a correction.

That should be a welcome respite for gold investors.

The bullion price had fallen 12% since Feb 20 when it shot above US\$1,000 an ounce. Gold was traded around US\$879 in Asia yesterday, up 1.2% from a 2½-month low of US\$868 on Monday.

Gold price slipped in the past one month, as share prices around the world gained traction. Despite falling on Monday to 835 points, the S&P 500 index had bounced back 23% from its 12-year low hit on March 9.

Faber, the author of the *Gloom, Boom and Doom* report, said he



would buy more gold if the price would go below US\$800.

A growing number of market experts attributed the recent gold price slide to new found optimism that embattled equity prices had hit bottom.

This gave rise to the argument that taking some risk by investing in stocks would yield better profit than holding on to bullion, which is no longer cheap at current levels.

At today's prices, gold costs twice as much as it did five years ago. The yellow metal hits a record US\$1,032

per ounce on March 17, 2008.

Near-record high prices coupled with economic worries had put off consumers' purchases of gold jewellery.

Earlier this week, the Bombay Bullion Association said India did not import gold for the second month in a row. India is the world's largest consumer of the precious metal.

In the Middle East, which is a major market for gold trading, sales of bullion had plunged by more than half.

There are also supply side concerns.

While new production from gold mines are expected to continue to show a decline this year, scrap gold sales are projected to rise.

Meanwhile, the International Monetary Fund (IMF) plans to sell 403.3 tonnes of its gold reserves this year pending US congressional approval.

But gold bugs argued that the upcoming IMF sales would be absorbed by China and Russia, two big economies that are eager to reduce their US dollar reserves in favour of the more stable bullion.

Gold supporters also said that

jewellery fall-off would be offset by growing demand for the precious metal as an investment.

Four years ago, bullion-backed exchange traded funds (ETFs) held an estimated 200 tonnes of gold. Today, the world's biggest gold ETF - SPDR Gold Trust - traded in New York, holds about 1,200 tonnes of the metal.

It added 350 tonnes of gold during the first quarter of this year alone.

To compare, the US Bullion Depository, commonly called Fort Knox, stores some 4,300 tonnes of bullion, or 147 million ounces.

"Amid the continued inclination to acquire safe haven assets around the world, investor buying is projected to reach a record 52.3 million ounces this year," commodity research firm CPM Group said in its widely-followed CPM Gold Yearbook released two weeks ago.

Investors bought 43.3 million ounces of gold last year, slightly lower than the 44 million ounces bought in 2007.

The group said increased demand amid rising economic uncertainties could send gold prices to new highs this year.