Gold traders are the most bullish since before the bear market began two months ago after a retreat in equities from an almost five-year high and a weakening dollar spurred demand for bullion.

Nineteen analysts surveyed by Bloomberg expect prices to rise next week, with eight bearish and six neutral, the largest proportion of bulls since March 22. Global stocks that rose to the highest since June 2008 on May 22 reached a six-week low yesterday amid mounting speculation about whether the Federal Reserve will taper stimulus. The U.S. Dollar Index, a measure against six currencies, slipped to the lowest in three months.

Weekly sales of gold held through exchange-traded products are poised for the second-lowest level since March after the value of holdings slumped by about $45 billion this year. The start of the bear market in April spurred a surge in demand for coins and jewelry, with the U.S. Mint saying June 5 that its sales may be a record this year. Demand has been so great in India, the biggest buyer, that the government is curbing imports to ease the nation’s current-account deficit.

“The concern is that we see stock markets come under pressure and then see an increase in risk aversion,” said Mark O’Byrne, the executive director of Dublin-based GoldCore Ltd., a brokerage that sells and stores bullion coins and bars. “Gold’s already had a correction, so people see value in the gold market. There has been significant technical damage done to gold and therefore it will take a period of time to recover.”

Gold Price

The metal fell 16 percent to $1,409.07 an ounce in London this year after climbing the past 12 years, and is trading 27 percent below the record $1,921.15 set in September 2011. The Standard & Poor's GSCI gauge of 24 commodities dropped 2.6 percent since the start of January and the MSCI All-Country World Index (MXWD) of equities rose 6.8 percent. Treasuries lost 0.9 percent, a Bank of America Corp. index shows.

Gold retreated as some investors lost faith in the metal as a store of value and the U.S. economy improved. The Fed’s Beige Book showed June 5 that the economy expanded at a “modest to moderate” pace in 11 of 12 Fed districts. The Chicago Board Options Exchange Volatility Index (VIX) jumped 39 percent since mid-May and reached a seven-week high June 5. The gauge of S&P 500 Index options prices is still 64 percent below its peak in 2011.

Hedge funds and other large speculators raised their net-long position, or bets on higher prices, by 35 percent in the week to May 28, the biggest jump in two months, U.S. Commodity Futures Trading Commission data show. Most of the increase came from a cut in short wagers from the previous week’s record.

Physical Demand

Physical demand surged around the world after prices slid to a two-year low of $1,321.95 on April 16. Gold and silver coin purchases from the U.S. Mint may reach a record this year if the current demand continues, Richard Peterson, its acting director, said in a June 5 interview. The mint sold 12,000 ounces of American Eagle gold coins this month, compared with 70,000 in May and 209,500 ounces in April.

Bullion for immediate delivery in China averaged about $31 more than the London price since mid-April. The premium had averaged about $7 in the previous 12 months, Shanghai Gold Exchange data show. Demand in India is poised for a quarterly record, the World Gold Council said May 29. Imports will be 300 to 400 metric tons in the period, almost half of last year’s total shipments, the London-based group estimates.

Indian Imports
India raised a duty on gold imports to 8 percent from 6 percent on June 5, following earlier moves to widen curbs on shipments that contributed to a $32.6 billion current-account gap in the fourth quarter. Imports may fall as much as 20 percent this year because of the higher levy, Bachhraj Bamalwa, a director at the All India Gems & Jewellery Trade Federation, said the same day.

Demand from speculators that helped push prices up as much as sevenfold in the past 12 years is waning. Taurus Funds Management Pty Ltd. shut its precious metals fund in May because of investor redemptions, said Gordon Galt, a principal at the Sydney-based *fund manager*.

Prices dropped in seven of the past eight months because the unprecedented money printing by central banks failed to increase inflation at a time when mounting optimism the global recovery is gaining momentum pushed U.S. equities to records last month. Fed Chairman Ben S. Bernanke said in May that the pace of quantitative easing could be reduced if the jobless rate keeps dropping.

**Global Expansion**

“The tail risks largely have been mitigated,” said London-based Warren Rogers, a fund manager at Duet Asset Management Ltd., which has been betting on lower prices. “You have the Fed telling you QE is over, you have a bull market in S&P 500. Of course the price can rally some, with so many shorts, but I think the broader path is quite down.”

Global economic expansion will accelerate in this and the following three quarters, according to economist estimates compiled by Bloomberg. Bullion may drop to $1,100 in a year, Credit Suisse Group AG forecast last month. Nouriel Roubini, professor of economics and international business at *New York University*, has forecast a decline toward $1,000 by 2015.

The 494.8 tons of gold that’s been sold from *ETP (.GLDTONS)* this year now exceeds additions in the previous two years. This week’s sales of 11.09 tons follow 10.15 tons last week, the smallest since the end of March, data compiled by Bloomberg show.

**Sugar Survey**

In other commodities, eight of 15 people surveyed expect raw sugar to decline next week and three were neutral. The commodity slid 15 percent to 16.53 cents a pound on ICE Futures U.S. in *New York* this year.

Fourteen of 28 surveyed anticipate lower corn prices and 10 said the grain will gain, while 16 of 29 said soybeans will climb and nine expect lower prices. Twelve traders predicted declines in wheat and eight were bullish. Corn fell 21 percent to $5.51 a bushel this year in *Chicago*. The December contract, which reflects supply after the U.S. harvest, is down 8.1 percent this year. Soybeans gained 9.1 percent to $15.3725 a bushel as wheat declined 10 percent to $6.99 a bushel.

Six traders and analysts surveyed expect copper to rise next week, five were bearish and four were neutral. The metal for delivery in three months, the London Metal Exchange’s benchmark contract, slipped 7.5 percent to $7,334 a ton since the start of January.

The S&P GSCI gauge lagged behind equities for six months, the longest stretch since 1998. Diverging prices for raw materials and other “risk assets” is a sign that traders will once more focus on supply and demand, said Scott Kerson, the head of a commodities unit at Man Group Plc in London.

**Domestic Consumption**

Most commodities will drop this year as *China’s economy* moves from a focus on infrastructure to domestic consumption and services, Citigroup Inc. said in a May 20 report.

“In the last few years commodity prices have been buoyant not because of general global economic prosperity, but more to do with specifically Chinese industrialization,” said Carole Ferguson, an analyst at SP Angel Corporate Finance LLP, a broker and adviser in London. “Once things do settle and people have a clearer picture of what’s happening on the demand side, that’s going to give you a more fundamental outlook for the market.”

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