Gold rises to 6-week high on Fed rate vow

By Lewa Pardomuan

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(Reuters) - Gold jumped to its strongest in more than a month in choppy trade on Thursday after a promise by the U.S. Federal Reserve to keep rock-bottom rates for at least two more years helped burnish the metal's safe-haven appeal.

The physical market in Singapore saw a mixture of activity, with jewelers cashing in on gold following gains in prices, but trading was muted in Hong Kong, where many dealers had yet to return to work after the Lunar New Year break.

Gold was steady at $1,710.19 an ounce by 1:59 a.m. ET after earlier hitting a high of $1,713.59, its highest since mid-December, and then falling to a low around $1,705.

Gold posted its biggest one-day gain in four months on Wednesday.

"In terms of sentiment, I think the downside is still limited. I think only if we go to $1,800 or above, we have to see some selling pressure," said Ronald Leung, director of Lee Cheong Gold Dealers in Hong Kong.

"Because the low interest (policy) will continue to 2014, I think it gives good support to stock and gold markets. But Hong Kong is still in a holiday mood. I don't expect too much activity on our side for the whole week."

Fed Chairman Ben Bernanke said the U.S. central bank was ready to offer the economy additional stimulus after it announced it was likely to keep interest rates near zero until at least late 2014.

U.S. gold rose 0.72 percent to $1,712.3 an ounce.

Gold contracts on the Tokyo Commodity Exchange also jumped. The most active December 2012 contract posted its biggest one-day gain since last October, hitting a high of 4,295 yen a gram.

Physical dealers noted selling from Indonesia, which was a steady buyer earlier this week, while Thai consumers bought gold on dips.

"We've seen profit-taking out of Indonesia early this morning. But there's also physical offtake and export from Thailand. It's such an odd market," said a dealer in Singapore.
Another dealer in Singapore said: "We see some Thai selling today. I thought I would have another quiet day, but not any more."

Equities, commodities and the euro extended gains on Thursday after the Fed said it would keep interest rates low for a much longer-than-expected period, providing ample liquidity to help spur growth.

Low interest rates particularly benefit zero-yielding gold, unlike stocks and bonds. Minimal borrowing costs also tend to fuel a gradual increase in commodity prices, supporting gold's traditional role as a hedge against inflation.

But volatile trade in recent days suggested some investors were unsure about direction, with the debt crisis still persisting in Europe.

"Gold has also become increasingly vulnerable to external cataclysmic events that trigger abrupt changes when there are no apparent reasons for gold to perform that way," said Pradeep Unni, senior analyst at Richcomm Global Services.

"Such wild movements have reduced the peculiar attribute of gold as a hedge against equity market slides. This aims to point out that part of the rally in gold is also due to heightened investor optimism in global financial markets and any slide in equity markets may spill over to gold too."

(Editing by Clarence Fernandez)