First Pain, Then Gain: Gold Seen Hurt by Fed Before Revival

Gold will extend losses this year as U.S. interest rates increase, providing an opportunity for investors to buy the metal to benefit from a rebound spurred by Asian demand, according to Barclays Plc.

“We expect gold prices to test new lows in 2015,” analysts Suki Cooper and Kevin Norrish wrote in a report dated yesterday, predicting that prices will drop to less than $1,130 an ounce. “The lows of this year and next are likely to offer attractive entry-level prices for the longer-term investor.”

Bullion last year posted the first back-to-back annual drop since 2000 as U.S. equities surged to records amid an improving economy, the dollar rose and assets in bullion-backed exchange-traded products extended losses. While the physical market looks more supportive this year, that won’t be enough to overturn the economic headwinds pressuring prices, the analysts wrote.

“Gold remains at the mercy of the macro environment,” Cooper and Norrish wrote. Bullion faces hurdles as the dollar rises against the euro to levels last reached more than 10 years ago and the U.S. will probably increase rates for the first time in nine years, they wrote, predicting a rise in June.

Gold for immediate delivery gained as much as 0.5 percent to $1,239.34 an ounce, the highest since October, and traded at $1,237.41 at 7:14 a.m. in London, according to Bloomberg generic pricing. The advance came as global equities sank, a rout in oil deepened and data showing falling wages in the U.S. increased speculation that the Federal Reserve may go slow in raising borrowing costs. This year, bullion gained 4.5 percent.

Goldman’s View

Cooper and Norrish join analysts at Goldman Sachs Group Inc. and Societe Generale SA predicting further losses in gold prices in 2015, while Australia & New Zealand Banking Group Ltd. and TD Securities Ltd. call for a rebound. The metal dropped 1.4 percent last year after plunging...
28 percent in 2013.

Bullion will probably average $1,200 in the first quarter, $1,180 in the second, $1,130 from July to September and $1,170 in the final three months of this year, Barclays said in the report. Prices will breach $1,130 for the first time since April 2010, according to the analysts.

The Bloomberg Dollar Spot Index rose to a record on Jan. 8 amid prospects for costlier U.S. borrowing. Raising rates in June would be a close call amid strong labor-market momentum and weaker wage gains, according to Fed Bank of San Francisco President John Williams, who votes on policy this year. Chair Janet Yellen has said it’s unlikely to happen before late April.

After so-called stale positions in gold are flushed out by this year’s decline and the physical market takes center stage, that will pave the way for the next leg higher driven by the east, according to the Barclays analysts.

The global flow of gold from west to east will probably last for up to two decades as rising incomes spur demand, the China Gold Association said in June. Asia accounted for about 63 percent of total consumption of gold jewelry, bars and coins in 2013, with India and China as the largest users, according to data from the World Gold Council.

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