Gold Bears Wager Wrong Again as Fed Talk Favors Bulls

By Elizabeth Campbell - Apr 14, 2014

Bearish speculators misjudged gold bets again as the release of Federal Reserve minutes extended this month’s rally in bullion.

Money managers cut their net-long position to the lowest since February in the week ended April 8. The minutes of the Fed’s March meeting the next day played down forecasts for higher rates, and gold had its biggest weekly gain in a month.

Speculators misjudged prices in three of the past four weeks. First, investors anticipated accelerating inflation only to see the Fed signal higher borrowing costs in 2015. Then, bets that the gold rally would fizzle were undermined by weak economic reports. Bullion rose 70 percent from December 2008 to June 2011 as the central bank pumped more than $2 trillion into the financial system and cut interest rates to a record low.

“Gold has been so zeroed in on central bank policy that the release of the minutes made it more likely that the Fed is going to taper much more slowly” than some traders expected, said Jeffrey Sica, who helps oversee more than $1 billion of assets as president of Sica Wealth Management in Morristown, New Jersey. “There was such a divergence between what people originally thought the minutes meant.”

Futures climbed 1.2 percent to $1,319 an ounce last week, extending this year’s rally to 9.7 percent on the Comex in New York. The Standard & Poor’s GSCI Spot Index of 24 commodities advanced 1.1 percent last week, while the MSCI All-Country World Index of equities fell 1.9 percent and the Bloomberg Treasury Bond Index rose 0.7 percent. Gold futures added 0.3 percent today.

Futures Trading

The net-long position in gold dropped 7.4 percent to 98,492 futures and options in the week to April 8, a seven-week low and the third consecutive decline, U.S. Commodity Futures Trading Commission data show. Short holdings betting on a drop rose 6.5 percent to the highest in five weeks.
The Fed signaled March 19 that borrowing costs might climb as soon as 2015. The minutes from the **Federal Open Market Committee** showed some said the comments were “misconstrued” and affirmed Fed Chair **Janet Yellen**’s assertion on March 31 that the economy will need stimulus for “some time.”

The outlook for less monetary stimulus helped drive **gold prices** down 28 percent last year, the most in more than three decades. Prices rebounded in 2014 as signs of faltering economic growth in the U.S. and tensions between Russia and Ukraine revived demand for the metal as a haven.

**Inflation expectations**, measured by the five-year U.S. Treasury break-even rate, jumped 0.9 percent on April 9, when the Fed minutes were released. It was the biggest gain in a month. An April 4 report showing U.S. payrolls rose less than expected helped send gold up the most in three weeks. The U.S. and its allies also weighed tougher sanctions last week against Russia if it intervenes militarily against Ukraine, strengthening bullion’s appeal as a haven.

**Bearish Outlook**

Banks including Morgan Stanley and Goldman Sachs Group Inc. aren’t convinced gold’s rally will last. It’s hard to make a “plausible scenario” that has bullion rising in the coming quarters, **Joel Crane** at Morgan Stanley said in a report on April 8. The bank favors equities and credit over haven assets, and gold may average $1,168 in the second half of this year, he said. The factors that rallied the precious metal at the start of the year were “transient,” and prices will slide as the U.S. recovers, **Jeffrey Currie** of Goldman said in a March report.

The **International Monetary Fund** said April 8 that the strengthening U.S. is providing a “major impulse” to world growth. Jobless claims fell by 32,000 to 300,000 in the week ended April 5, the lowest since May 2007, the Labor Department said April 10. The Thomson Reuters/University of Michigan preliminary index of consumer sentiment rose to 82.6 in April, the highest since July, data showed on April 11. Consumer spending accounts for about 70 percent of the **U.S. economy**.

‘**Better to Sell**’

“The U.S. economy is healing and, absent something extraordinary from **Europe** and the ECB in particular, then I think what happens is gold is better to sell than to buy,” **John Stephenson**, who helps oversee about C$3.1 billion ($2.83 billion) at First Asset Investment Management Inc. in Toronto, said in a telephone interview. “It’s going to fall in price because it’s a safe-haven investment that you have when you don’t see alternatives in the market.”

Holdings in gold-backed exchange-traded products fell 0.2 percent last week, down for a fourth
straight week and the lowest since March 5, data compiled by Bloomberg show. Assets in the
SPDR Gold Trust, the biggest exchange-traded fund backed by gold, fell for a second straight
week and reached the lowest since March 6.

The U.S. economy is on a “sustained growth path” and is no longer in danger of falling back into
a recession, which is good news for commodities, said Peter Jankovskis, who helps oversee $3.3
billion as co-chief investment officer of Lisle, Illinois-based OakBrook Investments LLC.

**Commodity Holdings**

Combined net-wagers across 18 U.S. traded commodities rose 0.3 percent to 1.69 million
contracts, CFTC data show. The increase comes as investors withdrew $300.86 million from
U.S.-based ETFs tracking commodities in the five days through April 10, led by an outflow
from precious-metal funds, data compiled by Bloomberg show.

Wagers on rising oil prices increased 10 percent to 331,056 contracts, as prices advanced 2.6
percent last week. The International Energy Agency said in a report on April 11 that OPEC will
need to pump more crude this year.

Net-short bets on copper fell 32 percent to 13,419 contracts as New York futures advanced 0.6
percent. China, the biggest user, imported 420,000 tons of unwrought copper and copper
products in March, 11 percent higher than February, customs data showed. Prices are down 10
percent this year on concern that demand from China will slow after the Asian nation had its
first onshore default last month.

**Agricultural Gains**

A measure of net-long positions across 11 agricultural projects fell 3 percent to 1.07 million
contracts, the first decline since January. Holdings are up more than fivefold since the end of
December. The S&P GSCI Agriculture Index of eight crops has climbed 16 percent this year.

A drought in Brazil, the biggest producer of coffee, sugar and citrus, is threatening crops, while
a citrus-greening disease is ravaging trees in Florida, the world’s second-biggest orange grower.

Orange-juice futures climbed 7.2 percent last week on ICE Futures U.S. in New York, after the
USDA projected this season’s Florida orange crop will be the smallest in 29 years. Prices
reached a two-year high on April 11. Bullish bets rose 7.9 percent to 4,600 contracts, the first
gain in a month.

**Grain Holdings**

Improved weather in parts of the U.S., the biggest exporter of corn and wheat, boosted the
outlook for some crops. Wheat prices in Chicago fell for the second straight week amid speculation that plants in Kansas and the U.S. Plains will be bolstered by rain. Bullish bets on wheat dropped 4.1 percent to 43,189 contracts, the first slump since January.

Mild temperatures in the Midwest are “generating optimism” for planting of corn after a frigid winter, according to an April 11 report from Martell Crop Projections. Net-long positions for the grain declined for the first time this year, dropping 2.1 percent to 270,137 contracts.

“In agricultural commodities, it is one area that is so weather dependent that it’s going to impact pricing,” Michael Cuggino, who manages about $10 billion of assets at Permanent Portfolio Family of Funds Inc. in San Francisco, said in a telephone interview. “Every commodity has its own sort of dynamic. As a general rule, looser easy monetary policy is a positive for commodity pricing.”

To contact the reporter on this story: Elizabeth Campbell in Chicago at ecampbell14@bloomberg.net

To contact the editors responsible for this story: Steve Stroth at sstroth@bloomberg.net Joe Richter