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Heavy selling of gold funds as attraction wanes

By Jack Farchy in London

Gold limped towards the end of the year as investors, bruised by sharp price drops, cut their holdings of the largest bullion exchange traded fund by the most since August.

Investors in the SPDR Gold Shares ETF, the world's largest bullion-backed fund, sold 25.4 tonnes of the metal between Monday and Thursday. Since the start of December, the ETF's gold holdings have fallen by 44 tonnes – roughly 20 per cent of monthly global mine production of the metal.

Gold prices traded in a narrow range over the course of the week, rising just 0.5 per cent to \$1,604.80 a troy ounce by late afternoon on the spot market.

But analysts said investors had become more wary about gold after a 10 per cent sell-off in just five trading sessions earlier in the month. Many have been disappointed by gold's muted performance since in the face of growing concerns about the eurozone debt crisis – despite its supposed role as a haven against such turmoil. “People are struggling with their view on gold; it hasn't traded their way since early September,” said Edel Tully, precious metals strategist at UBS in London.

Bullion prices have fallen 16.5 per cent from a record nominal high of \$1,920.30 touched in September, as hedge funds have been forced to liquidate their holdings to meet redemptions and banks have slimmed their gold trading books. Nonetheless, the precious metal remains 13.1 per cent higher than its level at the start of the year.

Many investors remain bullish, believing that the lack of resolution to the long-term problems of the eurozone will ultimately buoy gold to \$2,000 and beyond. Moreover, other shifts in the gold market that have underpinned the metal's decade-long bull run remain in place. Central banks, mainly in Asia and the Middle East, have been stocking up, with net purchases this year expected to hit the highest level since before the 1970s, at more than 400 tonnes.

And demand from China continues to grow apace as the country liberalises its gold market. Traders said that demand from the country had picked up following the tumble in prices last week, with gold on the Shanghai Gold Exchange trading as much as \$20 higher than the London market. Nonetheless, the lack of clear direction in gold prices has led some commentators to call the end of the bull market.

Markus Mezger of Tiberius Group, a Switzerland-based hedge fund, said that “many of the original

buying arguments have by now turned into selling points, and gold's long-running megatrend is, in all likelihood, near the end of the road".

He predicted the metal would end 2012 at \$1,300.

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