Gold Wagers Jump to 5-Month High as Fed Spurs Rally: Commodities

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By Elizabeth Campbell

Sept. 3 (Bloomberg) -- Speculators increased bets on rising gold prices to the highest since March as mounting speculation that the Federal Reserve will expand its record stimulus drove bullion to its second-biggest monthly gain this year.

Money managers raised their net-long positions by 19 percent to 131,687 futures and options contracts in the week to Aug. 28, U.S. Commodity Futures Trading Commission data show. Combined bets across 18 U.S. commodities fell 1.9 percent to 1.3 million contracts, still near the highest in 15 months. The Standard & Poor's GSCI Spot Index of 24 commodities gained for a fifth straight week, the longest rally since June 2011.

Investors accumulated a record hoard of gold in exchange-traded products last week, exceeded only by the U.S. and Germany when compared with national reserves. U.S. sales of bullion coins jumped 28 percent in August. Fed Chairman Ben S. Bernanke pledged in an Aug. 31 speech to promote growth with "additional policy accommodation as needed." The metal rose 70 percent as the Fed bought $2.3 trillion of debt in two rounds of quantitative easing from December 2008 through June 2011.

"Anytime they're putting more money into the economy, it's good news for gold," said Dan Denbow, a fund manager at the $1.8 billion USAA Precious Metals & Minerals Fund in San Antonio. The outlook for monetary stimulus "allows the risk-on trade to come back in to the market."

Commodity Rally

The S&P GSCI Index rose 6.2 percent in August for a third straight monthly gain, the longest rally since April 2011. Gold climbed 4.5 percent last month, exceeded this year only by January's 11 percent jump. The MSCI All-Country World Index of equities advanced 1.9 percent, and the dollar fell 1.7 percent against a measure of six trading partners. Treasuries lost 0.1 percent, according to a Bank of America Corp. index.

Eighteen of the 24 commodities tracked by S&P increased in August, led by a 13 percent gain in silver, the biggest jump since January. Soybeans and corn rose to records last month as the most-severe U.S. drought since 1936 scorched fields. The number of contracts outstanding across the raw materials tracked by S&P expanded 1.5 percent last month, the most since March.

The S&P GSCI surged 92 percent from the end of December 2008 through June 2011 as the Fed kept interest rates near zero and bought government and housing debt. Gold reached an all-time high of $1,923.70 an ounce in September 2011. It climbed 0.1 percent to $1,689.20 today.

'Grave Concern'

Bernanke’s told an annual forum in Jackson Hole, Wyoming, last week that U.S. unemployment remains a “grave concern.” It comes two weeks before he leads a meeting of the Federal Open Market Committee. In 2010, the Fed chairman used the Wyoming gathering to foreshadow $600 billion of bond buying in the second round of quantitative easing.

Central bank action may not be enough to stave off slowing global growth that will crimp demand for commodities including copper, said James Dailey, who manages $215 million at TEAM Financial Asset Management LLC in Harrisburg, Pennsylvania.

Two rounds of large-scale asset purchases have failed to lower the U.S. jobless rate below 8 percent, more than three years into the recovery. In the week ended Aug. 25, initial jobless claims were higher than forecast, the Labor Department said Aug. 30. American consumer confidence fell by the most in 10 months in August, a Conference Board report showed Aug. 28.

Europe Unemployment

Unemployment in the 17-nation euro area rose to a record 11.3 percent in July, the same as in June, the European Union’s statistics office said Aug. 31. The region’s economic confidence fell to the lowest in almost three years last month, the European Commission said Aug. 30.

“The global economy is decelerating, which will trump any type of monetization,” said Chad Morganlander, a Florham Park, New Jersey-based fund manager at Stifel Nicolaus & Co., which oversees about $127 billion of assets. “The global slowdown within the economy will eventually catch up to prices in the not-too-distant future.”

Europe consumes 18 percent of the world’s copper and accounts for 22 percent of oil demand, data from Barclays Plc and BP Plc show. The U.S. is the world’s largest oil and corn consumer, and China is the biggest user of metals, soybeans and cotton.

Inflows to raw-material funds totaled $1.37 billion in the week ended Aug. 29, the fourth gain in five weeks, according to Cambridge, Massachusetts-based EPFR Global, which tracks the funds. Almost all the gains were attributable to gold and precious-metal funds, which took in about $1.35 billion, said Cameron Brandt, the director of research.

Platinum Holdings

Holdings in gold-backed ETPs are up 4.4 percent this year, reaching a record 2,460.46 metric tons on Aug. 29. The amount of silver held in global ETPs has risen for four months, the longest climb since December 2010. Platinum holdings are up 12 percent this year, and the palladium hoard has grown 17 percent.

Billionaire John Paulson raised his stake in the SPDR Gold Trust, the biggest bullion-backed ETP, by 26 percent in the second quarter, and George Soros more than doubled his holdings, according to U.S. Securities and Exchange Commission filings.

Funds increased their silver holdings by 46 percent to 25,527 contracts in the week to Aug. 28, the fifth straight gain, the CFTC data show. Platinum bets jumped 31 percent to the highest since March. Wagers on a palladium rally more than doubled in August, the most since at least January 2010.

Hurricane Isaac

Investors raised bullish oil bets by 7.2 percent to 192,471 contracts, the most since May, according to the CFTC data. Prices rose 0.3 percent last week to $96.47 a barrel in New York. It was a fifth weekly gain, driven by the threat of Hurricane Isaac moving toward the Gulf of Mexico and an explosion closing Venezuela’s largest refinery. Isaac weakened to a tropical depression after making landfall in Louisiana as a Category 1 hurricane on Aug. 28.

A measure of 11 U.S. farm goods showed speculators lowered bullish wagers in agricultural commodities by 5.1 percent to 865,437 contracts. The bets have more than doubled since the end of May as the U.S. drought cut the prospects for crop yields. Based on average temperatures and rain in June and July, the drought in the Midwest was the most severe in 76 years, according to T-Storm Weather LLC.

“As long as there is a worldwide monetary bias toward liquidity, easier money, quantitative easing and other measures, the underlying environment for an increase in commodity prices is favorable,” said Michael Cuggino, who manages about $17 billion at San Francisco-based Pacific Heights Asset Management.

While Bernanke “didn’t really say anything new, he kept the door very, very open to further action down the road,” he said.

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