Billionaire Singer's Fund Sees Gold Rallying Amid Losing Wager
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By Elizabeth Campbell and Glenys Sim

Feb. 1 (Bloomberg) -- Gold may have a sharp rally as investors seek so-called real assets, while grains will drop if U.S. crop conditions improve, according to Elliott Management Corp., the $21 billion hedge fund founded by Paul Singer.

The metal may be "rediscovered" as a necessary investment, bolstering prices, the New York-based firm said in a document accompanying its fourth-quarter report to investors on Jan. 28, a copy of which was obtained by Bloomberg. Elliott's gold position lost money in the last quarter after nine months of "essentially flat performance," the document said. Peter Truell, a spokesman for Elliott, declined to comment.

Gold fell for a fourth month in January as data showing improvements in economies from the U.S. to China helped to curb haven demand. Holdings in exchange-traded products shrank last month by the most since December 2011 even as the U.S. Federal Reserve pressed on with stimulus to revive the largest economy.

Analysts from Credit Suisse Group AG to Goldman Sachs Group Inc. have called for the metal to peak in 2013 after a 12-year rally.

"We envision an environment, perhaps not too far away, in which the need to own something 'real' will be transcendent in investors' minds, and the present lack of investor sponsorship of gold will bring forth a sharp rally," the document said. It didn't give a timeframe or a price target.

Billionaire Singer has invested in emerging-market debt, mortgage securities and equities. He's among an investor group engaged in a legal dispute with Argentina after its 2001 default. He has also donated funds to Republican politicians and causes.

Soros, Paulson

Gold for immediate delivery, which rose 0.1 percent to $1,665.30 an ounce at 1:08 p.m. in London, lost 0.7 percent in January for the worst monthly run since the period to May. The metal has dropped 13 percent from a record in September 2011 amid signs that the global economic recovery is gaining traction and as Europe's sovereign-debt crisis has abated.

Asset managers including Soros Fund Management LLC, founded by the billionaire George Soros, and John Paulson's Paulson & Co. are also betting on gold, according to filings in November for the third quarter. The Pacific Group Ltd., a Hong Kong-based asset manager, is converting one-third of its hedge-fund assets into physical gold, predicting that prices will go up as governments print more money, founder William Kaye said Jan. 18.

'Bullish Sentiment'

“Prevailing market expectations of a stronger U.S. economy and higher real interest rates cut further against the prospects of a revived bullish sentiment toward gold at the outset of 2013,” the Elliott document said. Demand for gold may increase if investors’ perceptions of long-term bonds as a haven are challenged, the document said.

While the U.S. economy contracted 0.1 percent in the final quarter of last year, durable-goods orders rose for a fourth month in December and business activity expanded in January, according to government data and the MNI Chicago Report’s business barometer. China’s economy snapped a seven-quarter slowdown in the final three months of 2012.

Gold held in ETPs stood at 2,612.26 metric tons yesterday, after declining 0.8 percent last month, the biggest fall since December 2011, according to data tracked by Bloomberg. The holdings reached a record 2,632.52 tons in December.

“After the year closed, Germany announced a major repatriation from the U.S. of its gold reserves,” the document said. “Regardless of the stated reason for this move, it appears to us to be a sign of diminishing trust, which is supportive of gold prices.”

Gold Repatriation

The Bundesbank said on Jan. 16 that it will repatriate 674 tons from vaults in New York and Paris by 2020 to restore public confidence in the safety of Germany’s reserves. The phased relocation will begin this year, the central bank said. The country has the world’s largest bullion holdings after the U.S.

Elliott’s position in gold consists of options and option spreads, the document said. Volatility in the market remains low, and the so-called volatility skew that helps the fund to establish good option positions is missing, it said.

The fund forecast that corn and wheat may “come off sharply” after rallies over the last three years driven by crop failures in South America, Russia and the U.S. due to hot, dry weather. If there were normal weather in the U.S., the grain crop may be “quite large,” according to the letter.

The most-active corn contract in Chicago, which reached a record $8.49 a bushel in August during the worst U.S. drought since the 1930s, traded at $7.42. The grain rallied 8 percent last year, 2.8 percent in 2011 and 52 percent the preceding year. Wheat futures were at $7.7925 a bushel after gaining 16 percent over the past year.

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--With assistance from Kelly Bit and Saijel Kishan in New York.
Editor: Jake Lloyd-Smith

To contact the reporters on this story:

Elizabeth Campbell in Chicago at +1-312-443-5941 or ecampbell14@bloomberg.net; Glenys Sim in Singapore at +65-6311-2466 or gsim4@bloomberg.net