(BN) Gold's Cycle Seen Turned by Goldman as ETP Holdings Collaps e (3)

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(Updates prices in third, fifth paragraphs.)

By Glenys Sim

Feb. 26 (Bloomberg) -- Gold's price cycle has probably turned as the recovery in the U.S. economy gathers momentum and investment holdings collapse, according to Goldman Sachs Group Inc., which reduced forecasts for the metal.

The bank cut its three-month target to $1,615 an ounce from $1,825 and lowered the six- and 12-month forecasts to $1,600 and $1,550 from $1,805 and $1,800. Goldman reversed an assumption exchange-traded products holdings will expand in 2013, analysts Damien Courvalin and Jeffrey Currie wrote in a Feb. 25 report.

Gold has dropped 4.8 percent this year as economic data improved, equities advanced and some U.S. central bankers sought more flexibility in their stimulus program. An inevitable unwind of gold's 12-year bull market has begun, Credit Suisse Group AG said in a Feb. 21 report. ETP holdings are poised for the biggest monthly decline since January 2011.

"The turn in the gold cycle has likely already started," the Goldman analysts wrote in the report, after predicting an end of gold's bull run in a Dec. 5 note. "The latest collapse in gold ETF holdings stands in sharp contrast to our assumption that ETF positions were likely driven by longer-term allocation rather than short-term trading."

Gold for April delivery traded at $1,595.70 an ounce on the Comex at 9:30 a.m. in London, poised for a fifth monthly drop in what would be the worst run since 1997. Holdings in ETPs, also known as exchange-traded funds, fell to a five-month low of 2,536.289 metric tons yesterday and have shrunk 2.9 percent this month, data compiled by Bloomberg show.

Soros Sells

Billionaire investors George Soros and Louis Moore Bacon cut their stakes in gold ETPs last quarter, while John Paulson maintained his share, government filings showed this month.
Global holdings reached a record 2,632.5161 tons on Dec. 20.

Gold futures fell to $1,554.30 on Feb. 21, the lowest since June 29, after minutes from the U.S. Federal Reserve's January meeting showed debate over the pace of asset purchases. Chairman Ben S. Bernanke is due to testify before U.S. lawmakers today and tomorrow as the central bank buys $85 billion of assets a month in a third round of so-called quantitative easing, or QE3.

"Our economists believe that the downside risks to their forecasts have diminished while the uncertainty about the size of QE3 is high," the Goldman report said. "We believe that a shift has occurred over the past few months with conviction in holding gold waning quickly."

Real Assets

Many of the reasons for owning gold remain intact, Morgan Stanley analysts including Peter Richardson wrote in a note yesterday, citing currency debasement and rising inflation expectations. The metal may have a sharp rally as investors seek so-called real assets, Elliott Management Corp., the hedge fund founded by Paul Singer, said in a document accompanying its fourth-quarter report to investors on Jan. 28.

Russia and Kazakhstan expanded their gold reserves for a fourth straight month in January, according to International Monetary Fund data. Central banks will again be strong buyers this year after boosting purchases 17 percent to 534.6 tons last year, the most since 1964, according to the World Gold Council.

Data from the U.S. showed that builders broke ground on the most single-family homes in more than four years last month, while a manufacturing index climbed to a nine-month high. The Dollar Index, a gauge against six counterparts, has risen 2.6 percent this year, reaching the highest level since August on Feb. 25. Gold tends to trade inversely to the currency.

In Europe, German business confidence rose to a 10-month high in February, adding to signs that Europe's largest economy is improving. Still, financial markets may be roiled as Italy may require another vote after partial election results suggested the four-way race may end in a divided parliament, an aide to Democratic Party candidate Pier Luigi Bersani said.

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