

Gold Drops on Speculation Fed Will Slow Stimulus; Silver Falls
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(For more on the gold bear market, see EXT5.)

By Nicholas Larkin and Glenys Sim

Sept. 4 (Bloomberg) -- Gold declined in New York as the prospects for reduced stimulus in the U.S. countered the threat of a military attack against Syria. Silver dropped and palladium slid to the lowest since July 10.

The Bloomberg U.S. Dollar Index, which tracks the greenback against 10 major currencies, traded below the highest level since July before the U.S. Federal Reserve releases an outlook survey and data later this week may show payrolls rose. U.S. President Barack Obama won support from two opposition lawmakers for a military strike on Syria.

Gold climbed 19 percent from a 34-month low in June as lower prices boosted demand for jewelry, bars and coins in Asia. That cut this year's drop to 16 percent, as some investors lost faith in gold as a store of value and on speculation the Fed will slow stimulus. Bullion rose 1.1 percent yesterday, the most in a week, as Israel conducted what it described as a joint test with the U.S. of a ballistic missile defense system over the Mediterranean.

"Concerns grew that the Fed could start to taper down its asset-purchase program," analysts at Mumbai, India-based Anand Rathi Commodities Ltd. said today in a report. "Focus will also remain on developments taking place in the Middle East. Any escalation of tensions there could support further gains in gold and limit downside in the metal."

Gold for December delivery fell 0.6 percent to \$1,404 an ounce by 7:45 a.m. on the Comex in New York. Prices, which fell to as low as \$1,399.50, set a three-month high of \$1,434 on Aug. 28. Futures trading volume was 22 percent below the average for the past 100 days for this time of day, data compiled by Bloomberg showed. Gold for immediate delivery in London lost 0.6 percent to \$1,404.16.

Syria Action

Obama is seeking approval from Congress before ordering military action against Syria for its alleged use of chemical weapons against civilians. Speaker of the House John Boehner and Majority Leader Eric Cantor backed the president on strikes. The U.K. parliament voted against such a move last week.

"Tension around Syria will be the near-term driver of gold prices," said Lv Jie, an analyst at Cinda Futures Co., a unit of one of four funds in China created to buy bad debt from banks. "Recent U.S. economic data reflects a recovery, which

should increase expectations for tapering of quantitative easing.”

Fed Stimulus

Fed officials will reduce the amount of debt purchases at their Sept. 17-18 meeting, according to 65 percent of economists in an Aug. 9-13 Bloomberg poll. A U.S. factory barometer unexpectedly climbed in August to the highest in more than two years, data showed yesterday.

South African gold producers are closer to a wage agreement with the union that called two-thirds of the industry's workers out on strike overnight as talks continue, a spokeswoman for the Chamber of Mines said. National Union of Mineworkers members began a strike at the start of yesterday's evening shift after the chamber failed to meet the NUM's wage demands.

Silver for December delivery fell 2.4 percent to \$23.825 an ounce in New York. Platinum for October delivery lost 0.8 percent to \$1,525.80 an ounce. Palladium for December delivery was 1.2 percent lower at \$709.15 an ounce, after declining to \$706.40 in earlier trade.

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