
Gold Jumps With Fed Cut Seen Paving Way for Other Central Banks
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By Justina Vasquez

(Bloomberg) -- Gold posted its biggest two-day advance more than eight years after the Federal Reserve cut U.S. interest rates to help reduce the economic fallout from the coronavirus. Policy makers shaved 50 basis points off their benchmark, cutting rates outside their normal cycle of meetings for the first time since 2008. Low rates are a boon for gold, which doesn't offer interest, so much so that the price has now fully recouped losses sustained during Friday's 5% slide. The Fed's monetary easing, including its debt purchases, contributed to a decade-long rally in bullion that sent prices of the precious metal to a record in 2011.

The move on Tuesday comes after Group of Seven finance ministers and central bankers stopped short of taking action earlier Tuesday, disappointing markets that had been looking for a policy response to the virus. Bullion climbed 70% from December 2008 to June 2011 as central banks increased money supply on an unprecedented scale.

"Gold traders are happy today because this is what they have been waiting for," Naeem Aslam, chief market analyst at Ava Trade, said by email. "I think the floodgate is wide open and other central banks like Bank of Canada are also likely to follow the same path."

The central bank also said it is "closely monitoring developments and their implications for the economic outlook and will use its tools and act as appropriate to support the economy."

Gold futures for April delivery jumped 3.1% to settle at \$1,644.40 an ounce at 1:30 p.m. on the Comex in New York. The daily advance is the largest since June, when U.S. policy makers hinted at the start of a rate-cutting cycle. Bullion has surged 5% this week, marking the biggest two-day gain since August 2011.

The Fed's latest move is helping reinvigorate demand after gold plunged by the most since 2013 on Friday, with investors selling the metal to cover losses in other asset classes.

"To some extent it's like the Fed is taking the global lead, and they're basically in the role of 'this has got to be done, so get on with it,'" Rhona O'Connell, head of market

analysis for EMEA and Asia at INTL FCStone, said by phone. The lower rates should help stoke demand for gold, she said. Other precious metals also got in on the rally, with Comex silver futures rallying the most in more than a month, and platinum rising on the New York Mercantile Exchange. Palladium futures declined on the Nymex.

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