

DJ PRECIOUS METALS: Euro's Tumble Sends Gold To 5-Month Low

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By Tatyana Shumsky of DOW JONES NEWSWIRES

NEW YORK (Dow Jones)--Gold futures ended at their lowest level in five months as concerns about liquidity and Europe's economy flared after the euro broke below a psychological threshold.

The euro's decline below \$1.30 for the first time since January sparked fears that Europe's sovereign-debt crisis is taking a greater toll on the region's economy and financial system than previously thought.

"Markets are realizing that the global economy is, in fact, slowing and certainly Europe is in a recession," said Bart Melek, senior commodity strategist with TD Securities.

"There doesn't seem to be any type of a solution coming from Europe any time soon and whatever measures they've taken so far haven't convinced the market that credit risk isn't going to continue rising," Melek said.

The European Union has grappled with the massive debt load of some of its members as economic activity has yet to fully recover from the 2008 financial crisis. The cost of borrowing money is climbing for many euro-zone nations, and investors are questioning whether the currency union will survive.

Gold is considered to be a haven from such concerns, but investors worry that Europe's problems will trigger a cash crunch similar to the one seen during the 2008 crisis.

Even banks are worried. In Europe, gold lease rates, or the cost of borrowing gold from a bank, turned negative in early December.

The shift demonstrates banks' desperation to raise cash, as "banks are practically paying you to take their gold," said George Gero, senior vice president with RBC Capital Markets Global Futures.

As these worries build, some investors have faced margin calls on other assets and were forced to sell gold to cover those losses, while others are choosing to lock in the gains on gold purchased earlier this year, when prices were below current levels.

"I can't help but think the margin clerks are running the gold trade right now," said Mark Luschini, chief investment strategist at Janney Montgomery Scott, which manages about \$53 billion.

Gold for February delivery settled down \$76.20, or 4.6%, at \$1,586.90 a troy ounce on the Comex division of the New York Mercantile Exchange. It was the first time the most-active contract has settled below \$1,600 since Sept. 26, and the lowest settlement price since July 12.

Market participants were particularly worried by the fact that gold settled below the psychologically important \$1,600 level, rather than regaining that level by the end of floor trading.

"This is the first time in a long time there are no more buyers," said Yu-Dee Chang, principal at ACE Investment Strategists, a fund that invests in gold futures and has around \$60 million under management.

Gold's declines accelerated after prices slid below the 200-day moving average, which triggered automatic selling for some investors.

"People tend to concentrate their sell stops around these [technical] levels," said Melek, adding that the "next stop is \$1,560."

Gold's move below \$1,600 comes as traders are squaring their positions ahead of the year end, and many are moving to the sidelines in the weeks before the holiday season.

"This is more than a major correction, it's a fundamental shift in assets by money managers who are going to wait until the beginning of the new year to reassess anything other than cash," Gero said. "Money managers are going to husband cash until the dust clears."

One such manager is Chang, whose fund shed its last gold position in early December. Wednesday's losses aren't enough to lure him back into the market with the financial year end so close, he said.

"Why should I try to be a hero and pick a bottom right now. No, let me stay out of it and get back in when the bottom is made," said Chang, adding that he will look to re-establish a gold futures position in the new year once gold prices stabilize and show signs of heading higher.

Silver and palladium outpaced gold's losses as both metals have industrial applications, and are seen as stores of value.

"Silver in particular got hit by a double whammy," said RBC's Gero. The gray metal, used in solar panels and high-end electronics, fell \$2.325, or 7.4%, to settle at \$28.935 a troy ounce for the March-delivery contract, its lowest settlement since Feb. 3. Palladium, which is used in autocatalysts and dentistry, tumbled \$44.55, or 6.7%, to settle Nymex trade at \$619.60 a troy ounce for the March contract. Nymex platinum futures for January delivery fell \$66, or 4.4%, to settle at \$1,426.30 a troy ounce.

Mining shares sank as well. Iamgold Corp. (IAG) fell 5.6%, and Kinross Gold Corp. (KGC) was down 4.3%. Both earlier touched 52-week lows. Stillwater Mining Co. (SWC), which produces palladium, fell 4.2%.

Settlements (ranges include open-outcry and electronic trading):

London PM Gold Fix: \$1,603.00; previous PM \$1,672.50

Feb gold \$1,586.90, down \$76.20; Range \$1,565.70-\$1,645.80

Mar silver \$28.935, down \$2.325; Range \$28.530-\$31.070

Jan platinum \$1,426.30, down \$66; Range \$1,408.50-\$1,464.40

Mar palladium \$619.60, down \$44.55; Range \$600.50-\$649.50

Past performance is not necessarily indicative of future results. The risk of loss exists in futures trading.