



Nov. 18, 2009, 4:09 p.m E.S.T

Gold futures finish higher after passing \$1,150 level Trader: unless intervention talk translates into action, trend should continue

By Kate Gibson and Polya Lesova

NEW YORK (MarketWatch) --Gold rallied to yet another record high Wednesday, as weakness in the dollar weakness continued, along with the trend of borrowing the U.S. currency at low cost and using it to buy the metal and other commodities.

"Traders are like vultures, they find something that works and stick with it," said Yu-Dee Chang, president and head trader at ACE Investment Strategists.

The metal's 10-week spike is the result of "neither inflation nor geopolitical developments. The dollar-carry trade, as applied to the commodities sector, remains the suspect of choice," Jon Nadler, senior analyst at Kitco Metals Inc., wrote in a note.

That trend is likely to continue for the next three to six months, barring any geopolitical or other changes, such as differing signals on inflation or in the economic recovery, said Chang, who notes the dollar did rally a little bit amid government talk of wanting a stronger currency.

"But they never did follow up with any action, so traders and speculators said, 'all talk and no action,' and even if true, we'll wait and see if you actually do something," he added.

Gold for December delivery hit an intraday high of \$1,153.40 an ounce on the Comex division of the New York Mercantile Exchange.

December gold finished at \$1,141.20 an ounce, up \$1.80, or less than 0.1%.

Earlier Wednesday, the government reported U.S. consumer prices climbed 0.3% in October. Excluding food and energy, prices rose 0.2%.

GBP Remains Firm Despite Dovish BOE Minutes

The GBP continues to levitate despite minutes showing that the BOE has little confidence in the U.K. recovery. Support is coming from the continued appetite for global risk. But, if and when this goes, the pound will fall sharply.

Gold traders typically look at the consumer-prices report, which tracks inflation at the retail level, for direction, in light of the impact this data have on currency markets and on gold itself. The metal's widely viewed as a hedge against inflation.

Officials at the Federal Reserve charged with setting monetary policy also keep a close eye on consumer prices.

"Low inflation pressures are traditionally a negative for gold prices. If, however, weak inflation data are seen as allowing the Fed to continue to pursue easy monetary policies, this may be seen as supportive of gold," said HSBC analyst James Steel in a research brief.

Gold is underpinned by "trends that are already in place rather than from new sparks of buying interest," wrote Tom Pawlicki, analyst at MF Global, in a note to clients.

Accordingly, overbought conditions point to gold's vulnerability to a price correction, he said.

However, "support will come from potential that the dollar resumes its long-term downtrend, potential reserve diversification, the likelihood that U.S. rates remain low, and from investor demand for commodities," Pawlicki said.

The dollar dropped against rival currencies, unable to build on its biggest climb in three weeks Tuesday. The dollar index (DXY 75.07, -0.30, -0.40%), which tracks the performance of the greenback against a basket of other major currencies, fell 0.5% to 75.03.

Gold and the greenback have a very strong inverse relationship: When the dollar falls, gold prices tend to rise.

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