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Top Gold Forecasters See Rally Until March

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The most accurate forecasters say gold will rebound from its biggest monthly plunge since 2008 and reach a record by March because economic growth is stagnating and Europe's debt crisis is unresolved.

Futures traded in New York may rise 13 percent to $1,950 an ounce by the end of the first quarter, according to the median of estimates compiled by Bloomberg. The predictions are from eight of the top 10 analysts tracked by Bloomberg over the past eight quarters. Two declined to give forecasts.

Holdings in exchange-traded products backed by bullion rose the most in three months in October, and the most-widely held option gives owners the right to buy gold at $2,000 by Nov. 22. Demand for the metal accelerated since May as slowing growth and mounting concern that European leaders will fail to contain the region's debt crisis caused $7.5 trillion to be erased from the value of global equities.

"There is a loss of trust in the entire financial system and urgent need for safe-haven investment," said Ronald Stoeferle at Erste Group Bank AG in Vienna, the second most- accurate forecaster in the past three months. "The environment for gold is just perfect."

ETP holdings expanded 1 percent to 2,271.2 metric tons last month, a pile now valued at $126.6 billion and greater than the reserves of all but four central banks, data compiled by Bloomberg show. Bullion bought for investment accounted for 38 percent of total demand in 2010, compared with about 4 percent a decade earlier, the London-based World Gold Council estimates.

Paulson Buys Gold

Paulson & Co., founded by John Paulson, remains the largest shareholder in the SPDR Gold Trust, the biggest ETP backed by gold, according to an Aug. 15 filing with the U.S. Securities and Exchange Commission. Paulson, who made $15 billion betting against subprime mortgages, bought the 31.5 million shares in the first three months of 2009. Their value increased to $5.3 billion from $2.84 billion since then.

Gold has risen 22 percent this year, beating the 2.2 percent advance in the Standard & Poor's GSCI gauge of 24 commodities, the 9.3 percent decline in the MSCI All-Country World Index of equities and the 8.8 percent return on Treasuries calculated by Bank of America Corp. indexes. The metal has appreciated more than sixfold in its 11-year run of annual gains.

Prices climbed 6.3 percent in October, rebounding from the bear market in September after dropping more than 20 percent from the record $1,923.70 reached Sept. 6. Gold futures for December delivery rose 1.1 percent to $1,730.60 as of 9 a.m. in New York, headed for the first gain in four sessions.

Hedge Funds

Hedge funds and other speculators increased their bets on higher prices by 8.7 percent to 138,846 futures and options in the week ended Oct. 25, Commodity Futures Trading Commission data show. It was the biggest gain in almost three months.

The rally may fade because the swings in prices undermined the perception of gold as a haven, said Dean Junkans, an analyst at Wells Fargo & Co. in Minneapolis. In an Aug. 16 report, three weeks before the plunge began, he characterized the market as a "bubble that is poised to burst."

"It's not risk free and is not a currency, even though too many people think of it that way," Junkans said in an interview. "It can go down to $1,300, and could also rise to $2,000, but there is definitely a downside potential."

Gold also retreated in September as the Dollar Index, a measure against the currencies of six trading partners, jumped 6 percent, the most in almost three years. The 30-day correlation coefficient between gold and the index is now at -0.45, compared with 0.23 in March, data compiled by Bloomberg show. A figure of -1 means the two move in opposite directions, and 1 means they move in lockstep.

Financial System

The Dollar Index rose 3.3 percent in the past three sessions on mounting concern that European leaders will fail to contain the debt crisis, spurring demand for what are perceived to be the safest assets, including the dollar and Treasuries.

Some forecasters expect the dollar’s rally to fade because of concern that a slowing global economy may force the Federal Reserve to pump more money into the financial system. The U.S. currency will end next year at $1.40 a euro, compared with $1.3703 now, according to the median of 30 economists surveyed by Bloomberg.

Fed Vice Chairman Janet Yellen said on Oct. 21 that a third round of large-scale securities purchases may become warranted to boost the economy. The central bank bought $2.3 trillion of housing and government debt during two rounds of so-called quantitative easing from December 2008 to June 2011, spurring a 70 percent jump in the price of gold.

Bear Markets

The metal’s plunge in September may signal it is poised to keep rising. The last time bullion had a bigger drop was in October 2008, when prices tumbled 18 percent as the worst global recession since World War II drove equities and commodities into bear markets. The metal rose 23 percent in the next two months.

Investors aren’t the only ones buying bullion. Thailand, Bolivia, Kazakhstan and Tajikistan were among nations adding gold to their reserves in September, International Monetary Fund data show. Central banks are expanding reserves for the first time in a generation. Switzerland’s central bank said Oct. 31 it returned to a profit in the first nine months as gold holdings helped counter losses on currency reserves.

“There’s huge potential for gold in the coming years,” said Jochen Hitzfeld, the analyst at UniCredit SpA in Munich who was the most accurate tracked by Bloomberg in the past two years. “Investors are buying gold. That’s reinforced by buying from central banks. Prices did run up a little bit too fast, but the drop was just a breather.”

Fourth Quarter

Hitzfeld forecast on Oct. 12 that gold would average a record $1,900 in the fourth quarter of next year.

A measure of the combined earnings of the 16-member Philadelphia Stock Exchange Gold and Silver Index will rise 8.3 percent this year and almost 27 percent in 2012, according to analyst estimates compiled by Bloomberg.

Barrick Gold Corp. (ABX), the world's biggest producer and the largest member of the index, will report net income of almost $4.8 billion this year, compared with $3.27 billion in 2010, the mean of 12 estimates shows. Shares of the Toronto-based company declined 5.3 percent this year.

"When we look at gold five years from now, we will say gold was wildly cheap," said Jason Schenker, the president of Prestige Economics LLC in Austin, Texas, and the fifth-best forecaster tracked by Bloomberg. "What happens to gold is going to hinge on what happens to the dollar, and that is going to be influenced by what happens in Europe and monetary policy."

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