Gold forecast to reach $1,600 level

COMMODITIES

Consultancy says price has not peaked

Inflation concerns could boost bullion

By Javier Blas in London

The rally in gold prices has further to run, says a leading precious metals consultancy, which predicts waves of investor buying will take gold prices to as much as $1,600 a troy ounce by the end of the year.

GFMS, the London-based consultancy that compiles benchmark statistics for gold, said on Wednesday in its bi-annual "gold survey" that fears that the market was approaching a turning point were premature. "In terms of gold fundamentals, there is a strong case for arguing that the glass is, at least, 'half full'," it said.

Investors have become nervous that prices are nearing a peak, triggering some selling. But rising concerns about inflation, as oil and other commodities prices surge, the eurozone debt crisis and unrest in the Middle East have helped to underpin further price gains.

Gold prices hit a nominal all-time high of $1,476.21 an ounce on Monday, up 28.4 per cent over the last year. However, in real terms, adjusted by inflation, gold remains well below the peak set in 1980 of more than $2,300 an ounce.

Philip Klapwijk, GFMS chairman, said the prospects for gold remained bright and forecast an average price for 2011 of $1,455 an ounce. "Investors continue to be concerned about the outlook for inflation, with governments in general showing little appetite to tighten monetary policy significantly," he said.

Mr Klapwijk said that mounting debt problems in the US and a stalemate to cut the budget could benefit gold later in the year and in 2012. As well as investor demand, GFMS said that consumption should hold up as official sector purchases continued and

$1,455

Gold's average price forecast for 2011

became more substantial, with solid gains in electronics countering a slight drop in jewellery demand.

The official sector, a group that includes central banks and sovereign wealth funds, bought 73 tonnes of gold on a net basis, a "remarkable change of direction for a market that has been used to absorbing substantial volumes of gold sold by central banks over the last two decades," the consultancy said.

GFMS estimated that central banks had not been net buyers of gold since 1988. It said the official sector's sales accounted for about 16 per cent of global supply per year from 1989 to 2009. The consultancy expected another strong year of official sector buying, potentially rising to 100 tonnes and setting a new 22-year peak.

The consultancy warned that supply was set to grow by a large amount on the back of gains from both mine production and scrap this year, tempering the bullish influence of increased demand. Mine output increased nearly 4 per cent last year to 2,689 tonnes, surpassing the production peak of 2,646 tonnes set in 2001.

"A second year of strong production confirms that, after years of falling output, mine production is now responding positively to rising gold prices," GFMS said.

Commodity prices, Page 25
www.ft.com/commodities