

India's gold buying pushes metal to new high

Sara Lepro, Associated Press, 11-3-09

NEW YORK — Gold prices surged to a new high Tuesday on news that India's central bank bought \$6.7 billion worth of gold from the International Monetary Fund.

December gold jumped as high as \$1,087, before settling up \$30.90, or 2.9 percent, at \$1,084.90 an ounce on the New York Mercantile Exchange. Prices are now up 22.7 percent for the year.

India's purchase of about 200 metric tons of gold was a strong indication of the investment demand for the precious metal.

"To see a central bank buy at this kind of level shows there are going to be a lot of other buyers out there," said David Beahm, vice president of economic research at Blanchard & Co., a precious metals investment firm.

"It signals that there are people out there that think the price is going to continue to go up," he said. Beahm sees gold rising to as high as \$1,150 an ounce by the end of this year.

India, along with China and Russia, have indicated interest in buying gold as a way to diversify their holdings in dollar-denominated assets. The U.S. dollar has weakened considerably this year amid record-low interest rates, which have encouraged investors to look for higher-yielding assets, like stocks and commodities. Buying gold is seen as a way to hedge against a weaker dollar and the threat of inflation.

On Tuesday, gold rose even as the dollar moved higher against other major currencies in early trading, breaking away from its traditional inverse relationship with the U.S. currency. The dollar later retreated.

The IMF has set out to sell about 400 metric tons of gold this year in an effort to shore up its finances and increase lending to developing countries. India's purchase represents about half of that amount. IMF is the world's third largest holder of gold, after the United States and Germany.

Other precious metals followed gold higher. December silver soared 74 cents, or 4.5 percent, to \$17.18 an ounce, while December platinum rallied \$18.10 to \$1,353 an ounce.

December copper futures rose 1.1 cents to \$2.956 a pound.

Energy prices also rose Tuesday. Light, sweet crude for December delivery rose \$1.47 to \$79.60 a barrel.

Gasoline futures added 1.01 cent to \$2.0004 a gallon, while heating oil futures gained 2.73 cents to \$20.733 a gallon.

Many investors are eager to hear what the Federal Reserve has to say about the economy and its outlook on interest rates at the end of a two-day policy meeting on Wednesday. If the Fed were to give a more upbeat outlook on the economy and signal that it may raise interest rates sooner rather than later to ward off inflation, the dollar could rise, potentially crimping foreign demand for commodities and hurting prices. Dollar-denominated commodities become more expensive for foreign buyers when the greenback rises.

But the dollar could weaken further and thereby boost commodities prices if the Fed maintains its stance that it

plans to keep interest rates low for the foreseeable future.

On the Chicago Board of Trade, December wheat futures rose 1 cent to \$5.1575 a bushel, while corn for December delivery rose 7.75 cents to \$3.09 a bushel.

January soybeans rose 12.5 cents to \$10.105 a bushel.

Other soft commodities were mixed. Sugar and cocoa rose, while coffee fell.