

Gold Resumes Its Rally, Set to Make New Highs: Analysts

Gold continues as the trail blazer on the road to recovery for the precious metals complex, as investors accelerate their efforts to restock their portfolios with these safe-haven assets. Gold has made sharp gains so far this week in response to heavy buying by investors and industrial users, according to trade sources.

The nearby October gold contract on the COMEX closed at \$698.50/oz on September 6. Gold fell to the year's low of \$657.50/oz on August 21 during a turbulent two-week period when the stock market plunged and prices of virtually all commodities followed on the downward path. Gold has made a swift rebound, fostering hopes of a resumption of the bull market. "The market is saying \$700/oz: "Here I come," said a trader, followed by the question, "Then what?" He noted that there were still strong reasons for investor interest in gold, but added: "I'm a bit puzzled as to why the funds are pushing gold up so much; I'm not sure how much the funds are looking for. What happens after it tops \$700/oz?"

Gold bulls are hoping that once the Midas metal tops \$700/oz, it will continue moving upward to surpass the \$725/oz reach on May 12, 2006 (basis the London PM Fix) the move to challenge the all-time of \$850/oz reached during the 1979-1980 bull market. Some analysts have insisted that the recent liquidation of long positions in gold was triggered by the need to cash in profitable assets to offset losses in the equity and financial markets, and that the rally in gold is not over.

"I think there are a number of factors driving gold," said George Milling-Stanley, analyst with the World Gold Council. "The internal dynamics driving the gold market remain robust." He listed four "external factors" that he said were the driving forces behind the upswing in gold prices. "The first of these is the dollar, whose long-term downtrend remains in place; it has been going down since 2001, and most analysts believe it will continue to decline," said Milling-Stanley. "The second reason is that people are worried about what is going to happen to inflation. [Fed chairman] Ben Bernanke is worried too. That is why he is keeping interest rates high. And investors I talk with are worried also."

According to Milling-Stanley, the third external factor supporting gold is the equity market that is struggling to recoup its losses. The fourth reason is that geo-political factors are now worse than they were when the bull market started.

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