

METALS STOCKS

Gold peaks above \$728, ends at 16-month high

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SAN FRANCISCO (MarketWatch) -- Gold futures climbed Monday to mark their highest level in at least 16 months as trouble at U.K. mortgage lender Northern Rock and nervousness ahead of tomorrow's key Federal Reserve decision on U.S. interest rates enhanced the metal's safe-haven appeal.

"The market is convinced that the dollar will go down after a Fed Funds interest rate cut," said Julian Phillips, an analyst at GoldForecaster.com.

"Investment demand for gold...remains strong," he said in emailed comments. "It's really a case of catch-up by the short-term traders after conservative long-term holders bought in, in a big way, last week."

"There is little doubt that gold is now here to stay above \$700 and the market is reflecting it," he added.

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Gold for December delivery climbed as high as \$728.30 an ounce on New York Mercantile Exchange. It finished \$6, or 0.8%, higher for the session at \$723.80 an ounce.

Those levels were above the intraday peak of \$728 and the close of \$721.50 the June 2006 gold contract saw during a regular trading session back in mid-May of 2006. But the June contract last year climbed as high as \$732 in electronic trading.

The \$732 level for spot prices is "now a case of when, not if," said James Moore, an analyst at TheBullionDesk.com, in emailed remarks.

Meanwhile, Phil Flynn, a senior analyst at Alaron Trading, pointed out that although the bulk of the trading volume is currently in the December gold contract, the actual front-month contract for gold is still September. That contract closed up \$6.20 at \$715.80 after reaching \$719.10.

"The more actively-traded December contract, where the bulk of open interest is, seems to be suggesting that we should be testing the 2006 highs," said Flynn.

"If the spot month takes out the 2006 high, it's a very strong signal that we are on a long road to the highs from 1980," he said. And if that contract closes above the 2006 high, prices could be targeting the all-time high in the longer term, he said.

A Nymex spokeswoman couldn't say whether futures prices are at their highest levels since 1980, but said the record intraday for a benchmark gold futures contract on Nymex stands at \$875 from Jan. 21, 1980.

Credit woes and risk

"The larger story still remains the credit crunch and the related easing of credit expectations," said Jon Nadler, an analyst at Kitco Bullion Dealers.

"The safe-haven buying related to the recent bank run in the UK is undeniable, but here we have gold near quarter-century highs and look at the financial pain that such values imply," he said in emailed comments. "Being the par excellence anxiety asset, gold is in demand at the moment."

Indeed, "safe-haven buying on Northern Rock's 'run on the bank' and the continuing, developing and deteriorating global financial and banking crisis seems to be leading to a flight to the quality of gold," said Mark O'Byrne, director of Gold and Silver Investments Ltd., in emailed comments.

In London, shares of Northern Rock ([UK:NRK: news, chart, profile](#)) fell sharply for a second straight session, with European equities trading broadly lower.

Further adding to jitters, former Fed chief Alan Greenspan said his outlook for the future of the U.S. economy is "pretty gloomy."

In an interview on the CBS News program "60 minutes," Greenspan said that over the long run, the biggest problem facing the U.S. economy is "the re-emergence of inflation" and with it, rising interest rates. [Read more.](#)

"Alan Greenspan's very bearish pronouncements and warnings regarding U.S. deficits, challenges regarding inflation and the need for sharply higher interest rates globally and his belief that [the] U.S., and particularly the U.K., housing markets will continue to fall is most certainly not helping matters," said O'Byrne.

"Gold is looking healthy and strong and we have now had two weekly closes above \$700 -- and gold's close in August was the third-highest monthly close for gold ever," he said. "This is particularly the case as August is normally a bad month for gold with September and the Autumn months being the seasonably favorable period for gold.

"The massive consolidation of gold since May 2005 (between \$560 and \$730) has built an extremely strong foundation from which we are likely to see gold surpass its non-inflation adjusted high of \$850 (reached in January 1980) in the coming months," said O'Byrne.