BN Gold Equals 15 Barrels Oil in Sign Inflation Bets Too High (2)
Oct 30 2014 6:00:21

(Updates prices in penultimate paragraph.)

By Debarati Roy

Oct. 30 (Bloomberg) -- Add the bear market for oil prices to the list of reasons that U.S. inflation is still tame and why some investors see bigger losses in gold.

The U.S. crude benchmark fell to two-year low this week, signaling lower costs for American companies and making it less likely investors will look for inflation hedges, such as gold. Oil's slump pushed the ratio between the two assets to near a 17-month high, a sign that bullion is relatively expensive, said John Stephenson, chief executive officer at Stephenson & Co. Capital Management in Toronto.

Federal Reserve policy makers said after concluding a two-day meeting yesterday that lower energy prices will hold down inflation in the near term. The central bank ended its bond-purchase program, further reducing the appeal of bullion as a hedge.

"People don't think inflation will become an issue in the near future," said Stephenson, who helps manage about C$50million ($45 million), including investments in commodities. "There are no fears of a crisis, so investors are not rushing to gold."

One ounce of gold bought about 15.47 barrels of oil on Oct. 22, the most since May 2013. That's up from an average of 12.52 since 2000 and 11.92 reached in June, which was the lowest since July 2013. The ratio was at 14.8 today.

Money Supply

Gold climbed 70 percent from December 2008 to June 2011 as the U.S. central bank bought debt and held borrowing costs near zero percent in a bid to shore up growth. Prices slumped 28 percent last year, the most in three decades. Speculation that the Fed's almost $4 trillion of bond purchases since 2008 would cause runaway inflation has yet to be proven.

U.S. prices as measured by the Fed's preferred gauge, the personal consumption expenditures price index, rose 1.5 percent in August from a year earlier. The index has remained below the Fed's 2 percent target for more than two years.

Bullion fell 8.4 percent last quarter, even with escalating political tensions in Ukraine, protests in Hong Kong and the spread of Ebola.

Turmoil like the kind currently sweeping the world often drives investors to the metal. Instead, the perceived haven today is the U.S., where a strengthening economy and low inflation are increasing demand for dollars and dollar-denominated assets.

Dollar Gains

The Bloomberg Dollar Spot Index, which tracks the greenback

Copyright (c) 2014, Bloomberg, L. P.

BN Gold Equals 15 Barrels Oil in Sign Inflation Bets Too High (2)
Oct 30 2014 6:00:21

against 10 major currencies, gained the most in more than three weeks yesterday as the Fed said it would stop buying debt.

Oil collapsed into a bear market this month on concern rising global supplies will be more than enough to meet slowing demand. West Texas Intermediate futures in New York fell 11 percent this month to $81.45 a barrel today. Gold lost 0.5 percent to $1,205.70 an ounce in the same period.

"There are no fears of global inflation at the moment and in case inflation rises in the U.S., the Fed will raise rates and that cannot be good for gold," Rob Haworth, a senior investment strategist in Seattle at U.S. Bank Wealth Management which oversees about $120 billion, said Oct. 28. "I am bearish on gold."

For Related News and Information:
Gold Loses to Dollar as Global Haven With U.S. Inflation Subdued
fifw NSN NDWNIB6VDKHT <GO>
Gold Assets in Biggest ETP Drop Most in 12 Months, Defying Rally
fifw NSN NDRMDT6KLVS4 <GO>
Top metal and mining coverage: TOP METT <GO>
Commodity stories: TOP CMD <GO>

To contact the reporter on this story:
Debarati Roy in New York at +1-212-617-5307 or
droy5@bloomberg.net
To contact the editors responsible for this story:
Millie Munshi at +1-212-617-5543 or
mmunshi@bloomberg.net
Lynn Thomasson

[TAGINFO]

NI BUSINESS
NI CMD
NI CMDMARKET
NI CMDX
NI ECO
NI EXCLUSIVE
NI GLD
NI GLDMARKET
NI INF
NI MARKETS
NI MET
NI METMARKET
NI NONFERR
NI NRG
NI OIL
NI PCS
NI PCSMARKET

-0- Oct/30/2014 10:00 GMT

Bloomberg - Your definitive source
If you need help on the BLOOMBERG press the HELP key twice
Copyright (c) 2014, Bloomberg, L. P.