BN Gold Party Ends as Volatility Drops to 4-Year Low Before Fed (3)
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(Updates price in fifth paragraph.)

By Debarati Roy

Sept. 16 (Bloomberg) -- After gold's rally in the first half of the year beat gains for commodities, equities and Treasuries, bullion is starting to bore investors.

The metal's 60-day historical volatility is near the lowest since October 2010, according to data compiled by Bloomberg. Open interest in New York futures and options is holding near the lowest in five years, while money managers cut their bullish holdings for four straight weeks.

Prices are heading for the first quarterly decline this year on mounting speculation that the Federal Reserve is moving closer to an interest-raise increase, eroding demand for an inflation hedge. The central bank starts a two-day policy meeting today. Even as the U.S. expanded sanctions against Russia and ramped up its military campaign in Iraq, investor interest in bullion has been muted as the U.S. economy recovers and U.S. equities advance to all-time highs.

"People have left the party as the gold story becomes boring for many investors," John Stephenson, portfolio manager and chief executive officer at Stephenson & Co. in Toronto, said in a telephone interview yesterday. "The world is not falling apart, and the market has shrugged off the political developments. At a time when higher interest rates are knocking at the door, people don't see the need for gold."

Futures dropped 6.6 percent since June to close at $1,235.10 an ounce yesterday on the Comex in New York after touching $1,226.30, the lowest since Jan. 9. The metal traded at $1,233.80 today.

Fed Stance

Gold's volatility is dropping while measures of price swings rise for Treasuries and currencies. The Bloomberg Dollar Spot Index climbed to a 14-month high yesterday amid bets that the Fed will change its stance this week on keeping rates low for a "considerable" time after ending bond purchases.

JPMorgan Chase & Co.'s Global FX Volatility Index climbed to 7.9 percent last week, the highest since March. A measure for price swings in the Treasury market climbed 17 percent since the end of July. The Merrill Option Volatility Estimate, or MOVE, index reached 66.09 basis points yesterday, rebounding from this year's low of 52.26 basis points on Aug. 1.

Last year, gold fell 28 percent, the most in three decades. Bullion entered a bear market as some investors lost faith in the metal as a store of value amid a rally in equities and as inflation remained low.

The Fed reduced monthly bond purchases to $25 billion on July 30, the sixth cut of $10 billion since November. Inflation expectations, measured by the five-year Treasury break-even rate, reached the lowest since December last week.

Paring Gains

Bullion climbed 70 percent from December 2008 to June 2011 and jumped to an all-time high of $1,923.70 on Sept. 6, 2011, as the Fed bought debt and held borrowing costs near zero percent.

Prices are up 2.6 percent this year, paring gains of as much as 16 percent after violence eased in Ukraine and between Israel and Gaza.

More than $5.4 billion has been erased from the value of exchange-traded products backed by gold since June. Holdings in ETPs fell 48.6 metric tons this year through yesterday, according to Bloomberg data. In 2013, an outflow of 869 tons helped wipe more than $73 billion from the value of the funds.

Holdings Decline

Demand for the precious metal fell 16 percent in the second quarter, led by declines in India and China, the World Gold Council said last month. Prices will reach $1,050 in 12 months, Goldman Sachs Group Inc. analysts reiterated in a Sept. 5 report.

Investors reduced their gold net-long position by 3.6 percent in the week ended Sept. 9 to 71,376 futures and options contracts, the latest U.S. government data show. Holdings are down 47 percent in the past four weeks.

"People don't see the need for gold as they realize that inflation is not a threat," Michael Strauss, who helps oversee about $25 billion as chief investment strategist and chief economist at Commonfund Group in Wilton, Connecticut, said in a telephone interview yesterday. "Investors have woken up to the fact that even political violence in Ukraine and the Middle East was not enough to provide support to gold, and there are other attractive investments."

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