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Gold May Rise on Concern Inflation Will Pick Up, Survey Shows

March 7 (Bloomberg) -- Gold may rise for a fourth week in five on speculation investors will continue to buy the precious metal as a hedge against inflation, a Bloomberg survey showed.

Twenty-five of 39 traders, investors and analysts surveyed from Sydney to New York on March 3 and March 4 advised buying gold, which has risen 5 percent to $435.10 an ounce since reaching an almost four-month low Feb. 9. Nine recommended selling the precious metal and five were neutral.

Gold traders are focused on the prospect that rising commodity prices may spur inflation. Commodities are at their highest in 24 years, and oil surged last week to almost $54 a barrel, near a record. U.S. consumer prices rose 3.3 percent in 2004, the most in four years, helping to send gold to a 16-year high of $458.70 on Dec. 2.

``We'll see significantly more inflation,'' which is bullish for gold, said Axel Merk, who manages $62 million, about half invested in gold stocks and futures at Merk Investments LLC in Palo Alto.

Gold fell last week, which surprised the majority of investors who predicted a rise in a survey conducted Feb. 24 and Feb. 25. Gold futures for April delivery fell $1, or 0.2 percent, on the Comex division of the New York Mercantile Exchange, the first weekly decline in four weeks. Prices are up 11 percent in the past year.

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Some investors in the Treasury bond market perceive a diminished risk of inflation. The March 4 report from the Labor Department showing average hourly earnings rose 2.5 percent in February from a year earlier, down from 2.6 percent in January suggested inflation isn't poised to accelerate. The report prompted the 10-year note to gain the most in four weeks.

Rising Energy Costs

The majority of investors and analysts have correctly forecast the direction of gold prices in 27 of the 45 weeks since the Bloomberg survey began. A futures contract is an obligation to buy or sell a commodity at a set price by a specific date.

Crude oil, up 50 percent from a year ago, may rise above the record $55.67 a barrel this week on speculation that global oil production will fail to keep pace with rising demand, a separate Bloomberg survey of analysts showed.

``Gold and oil generally go up together,'' said Thomas Au, a principal at R.W. Wentworth & Co. in New York who has up to $1 million in personal investments, including 10 percent in gold stocks.

Higher oil prices also contributed to a wider U.S. trade gap, which grew 24 percent last year to a record $617.7

billion. A widening gap raises concerns that more dollars will have to be converted to other currencies to pay for imports.

Widening Deficit

The U.S. trade deficit probably widened to $56.5 billion in January from $56.4 billion in December, according to the median of 43 forecasts in a Bloomberg survey. The Commerce Department is scheduled to release the report on March 11.

``The U.S. deficits have not been played up enough,'' said Suzanne Stepan, a portfolio manager at Traverse City, Michigan- based Financial & Investment Management Group Ltd., which manages $400 million, including shares of StreetTRACKS Gold. ``There is still opportunity in holding gold. I look at it as a hedge against'' declines in the dollar.

Gold dropped to a two-month low on Jan. 7, three days after the Federal Reserve said its benchmark rate was ``below the level'' needed to curb inflation, spurring speculation that rates may rise faster. Rising rates boost the value of the dollar and help curb inflation by making it more expensive to borrow money.

Rising Commodity Prices

Since then, gold is up 4.3 percent and the Reuters-CRB Index of 17 commodities has jumped 11 percent to 309.16, the highest since January 1981. Some investors buy gold in times of inflation, which erodes the value of fixed-income assets, such as bonds. Gold futures surged to $873 an ounce in 1980, when U.S. consumer prices rose 12.5 percent from the previous year.

The Fed has raised interest rates by a quarter percentage point six times since June and pledged a ``measured pace'' for future increases.

``I don't think the Fed is going to be overly aggressive,'' said Gregory Orrell, who manages $100 million at Orrell Capital Management Inc. in Livermore, California. ``The economy is still a bit fragile because of the high debt level. I continue to be buying gold.''

The Fed increased its target rate for overnight loans between banks five times in 2004 and once so far this year to 2.5 percent from a 46-year low of 1 percent, surpassing the European Central Bank's benchmark rate of 2 percent. Gold fell to a four- month low of $411.50 an ounce on Feb. 9 after the Fed's most recent increase.

Fewer traders now expect the Fed to pick up the pace of rate increases at its June 30 meeting, based on the yield March 4 for July federal funds futures. The futures fell 2.5 basis points to 3.265 percent, indicating traders see a 53 percent chance of half- percentage-point increase, down from 58 percent the previous day. Quarter-point increases are expected this month and in May, the futures indicate.

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