

Mexican Central Bank Quietly Buys 100 Tons of Gold

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Mexico has quietly purchased nearly 100 tons of gold bullion, as central banks embark on their biggest bullion buying spree in 40 years.

The purchase, reported in monthly data published by Mexico's central bank, is the latest in a series of large gold buys by emerging market economies intent on diversifying reserves away from the faltering US dollar.

China, Russia and India have acquired large amounts of gold [GCCV1 1487.60 6.20 (+0.42%)] in recent years, while Thailand, Sri Lanka and Bolivia have made smaller purchases.

Central banks became net buyers of gold last year after two decades of heavy selling - a reversal that has helped propel the price of bullion to a series of record highs.

On Wednesday gold was trading at about \$1,510 a troy ounce, down 4 percent from a nominal record high of \$1,575.79 reached on Monday.

As a result of Mexico's purchase, central banks, sovereign wealth funds and other so-called "official sector" buyers are on track to record their largest collective purchase of gold since the collapse of the Bretton Woods system, which pegged the value of the dollar to gold, in 1971.

GFMS, a precious metals consultancy, had predicted that the official sector would make net gold purchases of 240 tons this year, compared with a post-Bretton Woods peak of 276 tons in 1981.

Philip Klapwijk, GFMS executive chairman, told the Financial Times that forecast "might turn out to be conservative" in light of Mexico's surprise move.

The dollar [.DXY 73.99 -0.21 (-0.28%)] has plunged 10 percent against the world's major currencies since January and is trading near an all-time low.

Mexico bought 93.3 tons of gold in February and March, according to the central bank, in a haul valued at \$4.5 billion at current prices and equivalent to 3.5 percent of annual mined output.

The country's foreign exchange reserves have ballooned since last summer, buoyed by its interventions in the currency market to prevent the peso from appreciating.

"[The buying] seems to confirm there's an appetite now among emerging economies with large forex reserves to add to their gold reserves," said Matthew Turner, precious metals

strategist at Mitsubishi, the Japanese trading house.

“Gold is seen as one way in which to diversify away from the dollar or euro-denominated assets.”

Although gold has quintupled in value over the past decade, it has fallen back in recent days led by a 20 percent tumble in the price of silver.

Just as central banks unwittingly marked the bottom of the market a decade ago with large sales of gold from their reserves, some investors fear that the current rush to buy may signal a top.

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