

The New Currency Trade: Gold Vs. All Else

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Investors have taken to terming the flight from risky assets into gold a new currency trade. The ongoing concern about the enormous task of getting the world's banks on track — bedeviling investors across the globe — has produced a safe-haven trade into the likes of Treasuries and the dollar. However, the dollar's success is, in some ways, a mirage, improving only because other major world currencies have been dreadful.

The dollar has strengthened in the last couple of months, along with gold, which is an odd occurrence, and speaks to the dearth of worthy investments around the world. But the shift to gold has picked up as "everyone is trying to devalue their own currency against everyone else," says Sean Peche, manager at BlueAlpha Investment Advisory Limited in London.



Gold is nearing its highs from last summer.

That explains the dollar's strength of late, one founded on risk aversion. Since the beginning of the year, the dollar has gained 9.5% against the euro and 2.3% against the pound, while gold, in dollar terms, is up 9.4%. The yellow metal closed up \$25.50 to \$967 an ounce Tuesday, highest since July 17, 2008. "Gold is telling you the dollar's rally is not going to continue," says Lance Lewis, fund manager at Lewis Capital Partners.

He adds that "other countries have a better ability to finance what they need," in reference to China and a few others that are creditor nations (others owe them money), rather than the U.S., a debtor nation.

U.S. Treasuries have remained a favored purchase for those seeking safe assets, but even that picture is clouded. Luo Ping, director general of the training center of the Chinese Banking Regulatory Commission, was quoted last week as saying there are few real alternatives to holding U.S. Treasury securities — but the semi-official China News Service later said Mr. Luo said buying U.S. debt is one of China's options, but not the sole option.

Still, according to Treasury International Capital figures released Tuesday, foreigners purchased \$24.4 billion of Treasuries in December, following sales of \$37.6 billion in November. China's holdings rose by more than \$14 billion to \$696.2 billion, of which nearly \$11 billion were purchases of short-term obligations.

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