Gold's Big Plunge

Why did its price drop more than 13% in two days?

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Suddenly, a bear market in gold. On April 12, the precious metal settled at $1,501.40 on the COMEX – diving 4.1% in a single trading day and 20.5% under its all-time closing high of $1,888.70 on August 22, 2011. Statistically, that was the end of a lengthy bull market – one marked by 12 years of annual gains.[1,2]

As gold bulls discovered, the selloff was just getting started. April 15 was the worst day for gold in 30 years – prices slid 9.4% lower on the COMEX to a close of $1,360.60.[3]

Buyers crept back into the gold market April 16, and the yellow metal staged something of a rebound – but why did prices plummet so quickly? While the tragedy at the Boston Marathon stunned Wall Street and the nation, the key factors behind gold's two-day retreat came from overseas.

One influence: a sell signal from Cyprus. Late last week, reports emerged that the central bank of Cyprus was going to sell its excess gold reserves. Those reserves are scant by global standards – around 40 metric tons – but investors worried that other distressed eurozone nations might follow suit.[1,3]

Another influence: China's Q1 GDP. On April 15, its National Bureau of Statistics estimated first quarter growth at 7.7%, down from 7.9% in the fourth quarter. Economists polled by Reuters had projected China's Q1 GDP at 8.0%. This riled Wall Street, and it was certainly unwelcome news for gold bugs as China's appetite for gold seems to generally be quite strong. Stock and commodity investors were counting on the PRC's growth to pick up, and instead they got one more signal of economic slowing adding to a perception of weaker global growth, implying less inflation and less demand to send gold prices higher.[3,4]

Another lesson in diversification. Historically, many investors have hedged with gold – holding a little in their portfolios, but not too much. During the 2008-09 bear market in stocks, the flight to quality was strong and gold played the role of the "safe haven". Now, stocks are strong and gold prices have suddenly sunk. Both of these downturns illustrate why many investors feel it is wise to allocate portfolio assets across different investment classes.

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Citations.

1 - www.marketwatch.com/story/gold-prices-slip-with-weekly-declines-in-sight-2013-04-12 [4/12/13]
2 - www.cnbc.com/id/100644021 [4/16/13]
3 - www.usatoday.com/story/money/personalfinance/2013/04/15/gold-plunges-in-panic-selling/2085867/ [4/15/13]
4 - www.cnbc.com/id/100640654 [4/14/13]