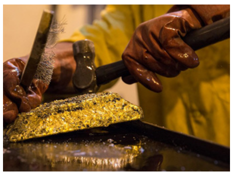

Gold's rapid slide came after surge in Chinese sales

Manila – Gold's 4% slide in a matter of minutes on Monday came after a record 3.3 million lots of the metal, or about 33 tonnes, were traded on a key Shanghai physical contract, as top consumer China appears to be increasingly shunning bullion.

The selling came as investors have been finding less and less reason to hold gold as a safe haven, with the dollar strengthening ahead of what is expected to be the first increase in US interest rates for nearly a decade.

Spot gold ended a 12-year rally in 2013, after hitting a record high of $1 920/oz two years earlier. With the US dollar increasingly gaining favour as a rate hike looms, gold faces still more downside risk.

"It looks like the end of an era for gold," said Howie Lee, analyst at Phillip Securities in Singapore, saying China has been grappling with oversupply after importing a record volume in 2013.

China said on Friday its gold reserves were up 57% at the end of June from the last time it adjusted its reserve figures six years ago. Despite the tonnage increase, gold now accounts for 1.65% of China's total foreign exchange reserves, against 1.8% in June 2009.

Spot gold fell to as low as $1 088.05/oz - its weakest since March 2010 - shortly after the Shanghai Gold Exchange opened. Gold regained some ground as the selloff subsided, trading above the key $1 100 support level.

Just over 3 million lots were traded on a key contract in Shanghai, compared to less than 27

000 lots on Friday, Reuters data showed. Prior to Monday, the volume for July had averaged less than 30,000 lots."

"We do see a lot of people in China selling gold to get fast cash to go back into the equity market," said a Singapore-based trader.

The Chinese have snubbed gold in favour of equities for the most part of this year, fuelling a rally in stocks before the meltdown earlier this month and the subsequent recovery.

Monday marked the sixth straight day of decline for gold, which took a hit last week after Federal Reserve Chair Janet Yellen said the US central bank is on course to raise rates this year if the US economy expands as expected.

But the speed and magnitude of Monday's fall shocked some traders, many of whom had been used to gold's lethargic trading this year, despite the Greek debt crisis and China's stock rout.

The Singapore-based trader said stop-loss orders had added to the slump after the Chinese market opened and warned that gold exchange-traded funds were likely to be dumped if the rout persisted.

Holdings at SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, dropped more than 11 tonnes to 696.25 tonnes on Friday.

That outflow was the largest in a single day since 2014, said Victor Thianpiriya, an analyst at ANZ Bank.

"Clearly the market momentum is down. We've had a price forecast of $1 100 in the short term, but it looks like the market is certainly trading very much on the weak side and could test levels below $1 100 and stay there for sometime," Thianpiriya said.

Source: **MiningWeekly.com** July 20, 2015.