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GOLD TO RISE ON INFLATION UNCERTAINTY

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QUANTITATIVE easing and all it entails is expected to become the single most important issue for markets in 2009. When the US Federal Reserve announced last week an aggressive programme to buy $300bn worth of Treasury bonds, the immediate reaction was to buy equities, buy bonds, buy gold and sell the dollar.

The European Central Bank and Bank of Canada are set to follow the lead of the UK, the US and Japan in order to spark economic growth. But QE is uncharted territory and the uncertainty it brings will present some interesting trading opportunities.

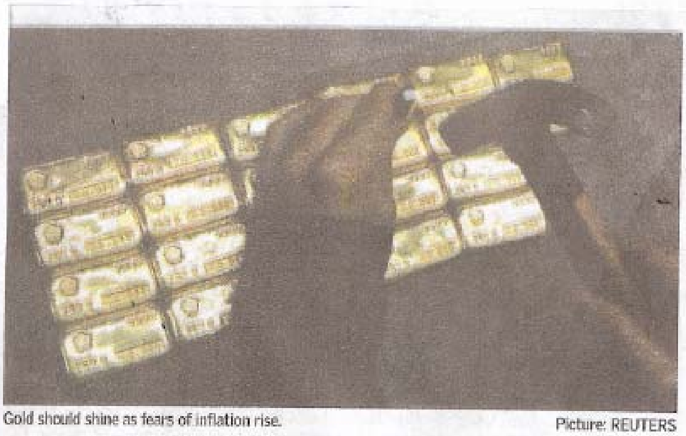
The biggest unknown is surely inflation. We are heading for volatility across all asset classes while we judge how inflationary QE is. How long will it be before we see a reversal of the current disinflationary trend? Will interest rates, having been been slashed to near zero, have to be ramped sharply upwards to counter inflation? No one knows.

QE is a much blunter tool than the traditional monetary policy of quarter point cuts in interest rates. There are, as ex-US Defence Secretary Donald Rumsfeld would put it, "unknown unknowns"; that is, so far unperceived economic side-effects which could become apparent along the way.

Whatever your view about a potential gold bubble, CFDs have to be one of the simplest and cheapest ways of trading gold. GFT's spot gold CFD, with a fixed $0.50 spread and just 3 per cent margin requirement, has seen increased interest since the Fed's announcement, both on the long and short sides.

In real terms, the current price of gold at around $950 per troy ounce is relatively low; some estimates put an inflation-adjusted price of around $2,300. Peter Munk, founder of Barrick Gold, believes we could quickly hit $2,000 per ounce as central banks shift dollar reserves into gold. Others say the inflationary threat is too far off to be of any short term consequence.

I believe the "Rumsfeld effect" is set to play an increasingly dominant part in the markets in 2009 as inflation insecurity takes hold, and in those circumstances, gold should shine.



Gold should shine as fears of inflation rise. Picture: REUTERS