

Gold may hit 'more than \$1,500 an ounce'

The dramatic monetary policy tactics of central banks across the globe could push the price of gold to more than \$1,500 an ounce, according to one expert.

Gold: Set to soar?

Charles Gibson, an analyst, at Edison Investment Research, compares the present economic turmoil to that of the 1970s. He says: 'During the 1970s, gold rose from US\$35 an ounce to its only recently surpassed record of \$850 - a 24 fold uplift in value.'



'While we do not expect quite such dramatic appreciation in the current era, a repeat of the same cycle would see gold rise to a price of \$1,567 an ounce in the near term.'

Gibson cites the 'special and often overlooked relationship between the price of gold and real US interest rates' as the foundation of his thesis.

Essentially, in tough times banks trade less gold and attempt to hold on to the precious metal, leaving even less supply in the market. Meanwhile, investors seeking a safe haven from turbulent markets, low interest rates and potential inflation risks are hungry for the metal, increasing demand. US interest rates, as in the UK have been slashed in a bid to kick start the respective economies. Gibson asserts that negative real interest rates in the US, i.e. those below inflation, and further afield have led to a sustained gold market squeeze. In periods of 'normal' economic activity, such as that between 1950-1970 and 1980-2001, according to Gibson, the natural supply of gold is less than the demand.

Gibson points to one major issue - that gold mining companies are no longer selling a section of their output to bullion banks, a trend that was commonplace until around the start of the century, and this has in turn created an annual shortfall of about 500 tonnes. This pattern increases the problems of those hungry for physical bullion, who now have a far more difficult time getting their hands on it.

Gibson says: 'The undersupply is exacerbated by the fact that producers are still required to deliver metal into their existing hedge positions and via the bullion banks back to the central banks. During times of negative interest rates, not only is there a lack of accelerated supply reaching the market from central banks but there is also accelerated demand into the central banks - all at a time when the physical market is already structurally undersupplied.'

Gold being often viewed as the 'ultimate safe haven' during tumultuous times has seen a wave of demand spring up again, those who have it are hanging onto it, while others are scrambling for it. Since the beginning of 2008, as the financial crisis has progressed, the nominal price of gold has exceeded \$1,000 on more than one occasion.

Investor interest in gold accelerated again recently, after the precious metal's dip since February attracted bargain hunters. For his part Gibson points to three mining companies which he identifies as historically profitable and attractive investment targets; Avocet, Highland Gold and Pan African Resources.

All have suffered a severe drop in their share price over the past 12 months but both Highland Gold and Pan African Resources have managed to deliver robust gains over the past six months, up 85% to 52¼p and 43% to 4.13p respectively.