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How low can gold go?

Izabella Kaminska Jun 28 09:03 23 comments

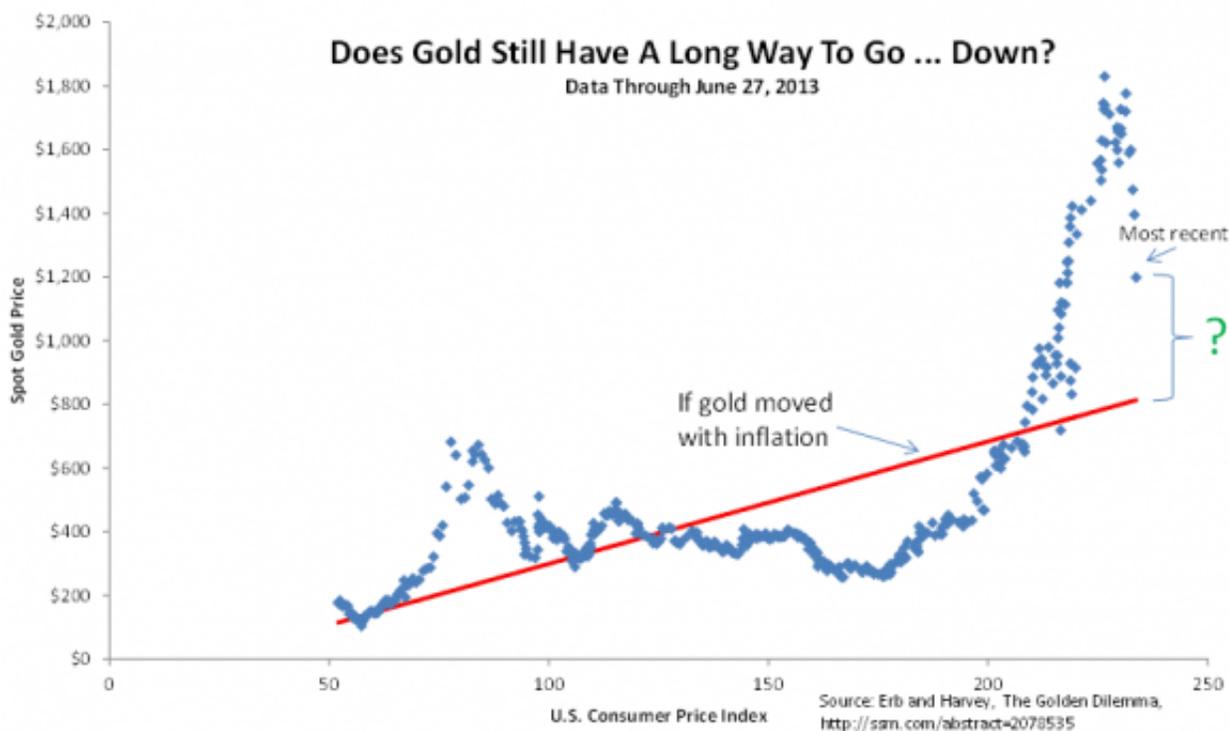
Gold descended through the key psychological level of \$1,200 on Thursday:



This has now led a whole bunch of people getting excited about an upcoming bottom in gold, as well its prospective speedy revival.

But on the subject of gold bottoms, some bottom talk is more compelling than others. Campbell Harvey, from Duke University, for example, has been arguing for a while that in real terms the gold price has been overvalued for some time.

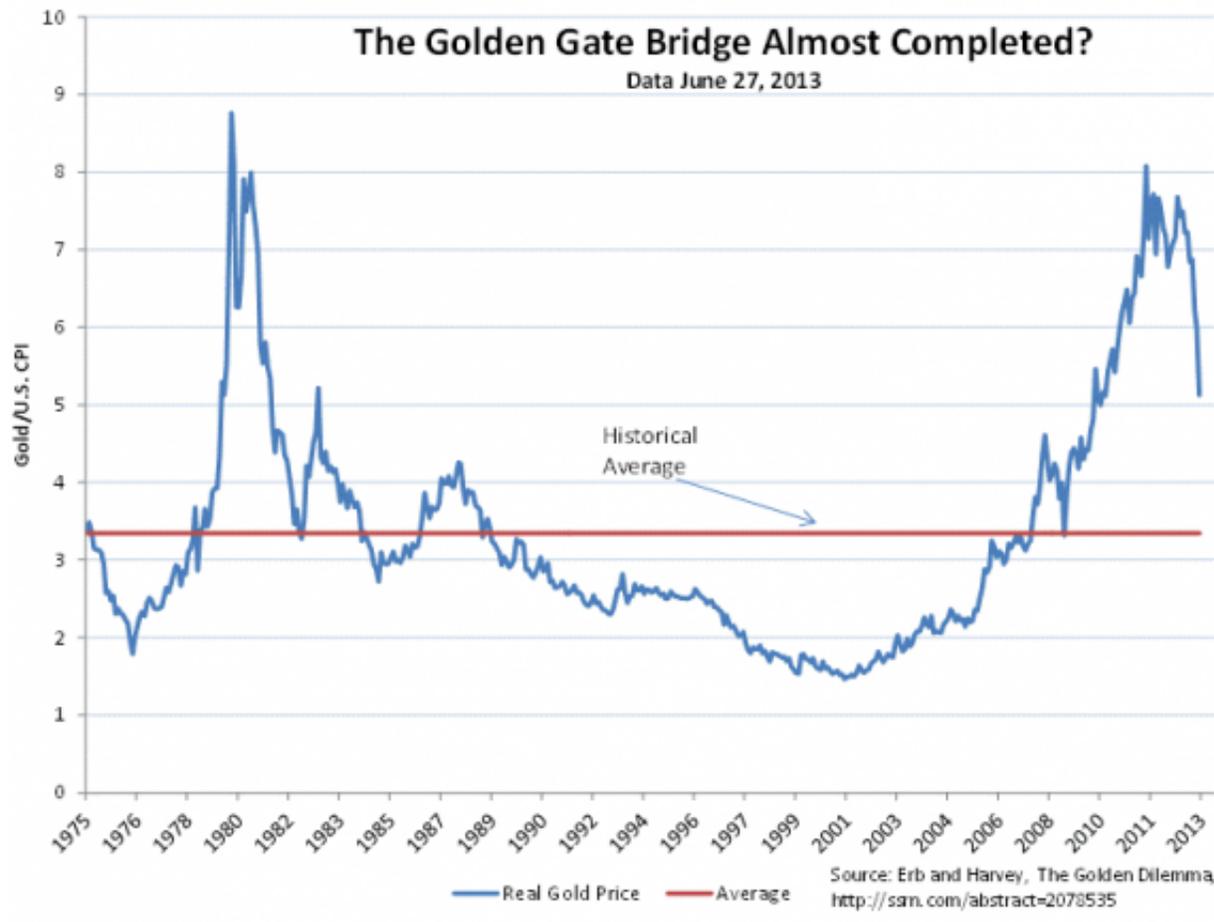
So, on the basis that gold really is the inflation hedge some people think it is, its value should currently more about the ... \$800 mark:



But since gold doesn't really do a good job of moving with inflation, it's hard to say if common sense valuations will prevail. In fact, Harvey questions the entire correlation between gold and real yields, and suggests its outperformance is mostly the result of a "fear trade".

As he adds in an email to us:

If you look at the golden gate graph (or my longer graphs that uses 300 years of data), you will notice that "mean reversion" does not imply that you revert to the mean (\$800) and stay there. Historically, we have always plunged below the mean. This is nothing special to gold. You see this, for example, in the Shiller PE analysis.



Worth keeping in mind.

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