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## One ounce gold can buy a few pieces of bread

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The price of gold is always much higher or lower than its long-term fundamental value over time.



Wen \_ Kenneth Rogoff

Kenneth Rogoff (Kenneth Rogoff)

Former IMF chief economist, is a Harvard University professor of economics and public policy



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In principle, holding gold is in response to the war, the financial doom and massive currency devaluation. And since the global financial crisis, the price of gold has been described as reflecting a barometer of global economic instability situation. So, the price of gold diving - from August 2011 to U.S. \$ 1,900 / oz in early July 2013 fell to U.S. \$ 1,250 / oz - on behalf of the people's vote of confidence the global economy do?

To say that the gold market shows all the classic characteristics of the foam bankruptcy it would be overly simplistic. Undoubtedly, from July 2003 to 350 U.S. dollars / ounce rapid rise to the peak of the process, gold has become the investors coveted object. Because everyone have convinced tomorrow be better than today's gold prices rose too high, so the price of gold surging.

People buy gold has several powerful reasons. Ten years ago, are included in the price of gold is far below its long-term average inflation level, while three billion people in emerging markets are also being integrated into the global economy simply means a huge long-term demand stimulus.

Incidentally, a small part of the story is still valid. Because began to fear there will be a second Great Depression, the global financial crisis has increased the allure of gold. Later, some investors are worried that the Government will reduce the growing public debt burden and address the release of high unemployment and inflation.

As the central bank policy rate has dropped to zero, no one will care about the fact that gold is zero interest. So there is no reason to say that the price of gold rose is completely bubble. On the other hand the fact is that, as the price of gold rising, more and more naive investors began actively trying to buy gold.

Of course, with the latter somewhat reversed fundamentals, gold speculative frenzy appeared greater back. China's economy continues to slow down; Indian growth rate is much lower than in previous years. On the contrary, the U.S. economy seems to be gradually restored. Global interest rates since the Fed began to hint - it seems to me a bit premature - the quantitative easing policy will be phased out after rising 100 basis points.

There is a high price to support the key fundamentals of gold: gold prices are extremely sensitive to global interest rates. After all, the hoarding of gold can not get any interest, on the contrary will have to pay storage costs. Until recently, many countries interest rates at or near historic lows, so speculative than investing in bonds for gold becomes relatively cost-effective. Once the real interest rates rise significantly - this is a matter - Gold prices will quickly drop.

As the Federal Reserve showed a strong anti-inflationary tendencies, so it is difficult to prove that investors need gold to fight high inflation.

In fact, since 2010, supporting or bearish case for gold have not changed much. 2010, when the last time I wrote something about gold, the year in October, the price of gold - perfect trust-based investment assets - is on the rise, arrived in 1300 U.S. dollars. However, holders of gold, both then and now, yet not speculation. On the contrary, gold is a hedge products. If you are a high net worth investors, or a sovereign wealth fund, it will be a small part of your assets into gold to fight extreme situation is of great significance.

Holding gold for those countries like China and India's middle class and poor families are also meaningful, because these countries greatly limits the domestic population other financial investment channels. Most other people, gold is just another gamble Bale. Like with other gambling, gambling gold does not necessarily have to win the bet.

Unless the Government resolutely determine the price of gold, as they did before the war one, otherwise the gold market will inevitably be at risk and volatility. A study published in January, the economist Erb (Claude Erb) and Harvey (Campbell Harvey) considered the basic price of gold several possible models, and found gold at best, only loosely tied to any one of the on. On the contrary, the price of gold often seems much higher or lower than its long-term fundamental value over time.

Advocates of the gold standard will sometimes cite indicate long-term value of gold has remained stable over the past one thousand years of isolation historical data. For example, Hamm Princeton (Stephen Harmston) repeatedly cited 1998 study noted that anecdotal evidence suggests that the Babylonian king Nebuchadnezzar II (died 562 BC) period, an ounce of gold can buy 350 bread. Ignore Babylonian period of bread could have been highly refined products more healthy this fact, and now the price of gold is not a lot worse, the equivalent of 600 bread.

Of course, we did not Babylonian period the price of bread annual data. We can only assume that, given the war and other uncertainties, when the real market price as it is today, is very unstable.

So the recent gold price collapse does not change investment in it. Yes, the price is likely to fall to \$ 1,000 or less, but it may also rise.

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