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By David Wilson

June 12 (Bloomberg) -- Gold's prospects are less dependent on inflation than on demand from emerging markets, according to a study released last week.

The CHART OF THE DAY shows the relationship between gold and the U.S. consumer price index since 1975, when futures on the metal began trading. The inflation gauge was set equal to the gold price as the period began.

Assuming that gold moved in lockstep with the CPI, the implied price would be about $780 an ounce, according to Duke University Professor Campbell R. Harvey and his collaborator, Claude B. Erb. Yesterday's price on the Comex in New York, $1,596.80 an ounce, was more than twice that number.

"If gold is an inflation hedge, then on average its real return should be zero," Erb and Harvey wrote. Instead, returns from 2000 through March of this year averaged 13 percent a year on an inflation-adjusted basis.

Emerging markets are in a position to sustain the surge, they wrote, because gold accounts for a smaller portion of central-bank reserves in those nations than it does in the U.S. and other developed countries.

Brazil, Russia, India and China would have to increase their total holdings of the metal by 153 percent to match the Federal Reserve's investment as a percentage of gross domestic product, the report said.

Erb is based in Los Angeles, and Harvey is based in Durham, North Carolina. Their study was first published June 6 on the Social Science Research Network, a online repository for academic research.

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