# Between speculation and inflation protection

LUKE ŠUSTALA, 6th December 2012, 08:45

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"The gold price can be anywhere from $ 35 or $ 2,000," says finance professor Campbell Harvey. The volatile price of gold is therefore difficult to own protection against inflation.



**The price of gold rushes from record to record. But experts warn against exaggerated expectations of the precious metal, a look into the new year**

Gold glitters. The price of the precious metal is, in euro terms, as high as ever. More than 1350 euro cost per troy ounce in late November, and gold has experienced thus a remarkable renaissance. During the British economist John Maynard Keynes, the precious metal still a "barbarous relic", described in the modern economy has hardly any place in the financial system, cavort in German and Austrian cities besides classy boutiques recently, more and more gold dealers. Given the ongoing sovereign debt crisis in Europe and the low interest rates on savings accounts, real estate subject (which are sometimes called the concrete gold) and gold as safe havens.

But what about gold? Is it a protection against inflation or a bet for speculative investors that interest rates stay low? Campbell Harvey does not really know what to make of the gold boom. He shakes his head back and forth when he is asked whether gold is a good hedge against inflation. The renowned professor of finance from Duke University warns that many myths about the price of gold, which can not be substantiated by the data. In fact, the price of the yellow precious metal is hard to grasp. "The gold price can be anywhere from $ 35 or $ 2,000. Gold is not an effective hedge against inflation, that's a myth. Gold is so volatile that it can be so for several decades a loser." That had some investors realize painfully that were invested from 1980 to 2000 in gold.

### Gold as an investment

That the inflation protection is not always the case, not least to hang speculators. Gold has increasingly become an investment. Were purchased in 2003 just 331 tonnes of gold for investment purposes, it was. According to latest figures from the World Gold Council, a lobbying organization for the gold mining company, 2011, more than 1,700 tons Nearly 40 percent of gold demand coming from investors so now. These are just as private investors as well as hedge funds and institutional investors.

For example, more than 1,300 tonnes of gold from the largest gold ETF (SPDR Gold) are held, a fund investing in the precious metal physically. In the fund is more bound by the metal, such as the Chinese central bank's view of the yellow metal. But the central banks have recently acquired a taste. Especially in emerging markets, the manager of the foreign exchange reserves have begun next to the U.S. dollar and the euro also admix gold. "This is simply risk management to be invested not only in a few paper currencies," says Harvey.

In fact, the central banks are an important factor in the gold price, whether. As purchaser or passive supporters of the boom "Gold is a safe choice when the massive monetary easing will continue," says commodities analyst Jeremy Friesen from Societe Generale. The calculus: If interest rates remain low, bonds remain relatively unattractive, and gold could shine on. In fact, Wall Street is now more keen on the precious metal. For 2013, analysts expect according to a survey by Bloomberg on average a price increase to $ 1,925 per troy ounce. That would be an increase of more than ten percent.

It must meet the high expectations of gold not the analyst to interesting about for Philipp Vorndran be. The investment officer of the German asset manager Flossbach von Storch says that gold can also do the trick without high returns. "Gold is not a promise of double-digit growth rate, but the promise to maintain the long-term purchasing power." Because basically protected the gold investors of a possible monetary accident, or about when the central banks should still produce inflation. "Gold is the money of last resort. In the current environment, it is not impossible that the population more and more faith in the paper money loses when the creative action of the central banks to continue the good work."

**Insurance and bet**

To understand this calculus that helps about a look at the past few months. Since then, the U.S. Federal Reserve and the European Central Bank have discussed their latest easing, the price of gold per troy ounce of almost $ 1550 has risen to over $ 1700. Therefore it is also important whether an investment in gold is not a few years reckon Vorndran says: "Physical gold is an insurance policy for us, if it really a loss of confidence in paper money is."

This leaves gold one: a bet on expanding the central bank balance sheets (see chart). Since the start of the financial crisis of 2007, the central bank balance sheets of the industrial and the developing countries have more than doubled. According to data from the Bank for International Settlements, the balance sheets of central banks have increased in April 2012 to 18,414 billion dollars. That is more than the current gross domestic product of the European Union. If central banks were just as active in recent months as the average for the time of crisis, and it is in light of the announcement by the U.S. Federal Reserve to buy more mortgage-backed securities, to go out, then the balance sheet total is already up to date with more than 20,000 billion dollars.

There is an "Ugly Contest" of the world's major currencies. Central banks print money in order to weaken its currency and to knock it an export advantage of the weak economy. But it will increase the risk of high rates of inflation, warns Harvey. "Gold reacts to small probabilities of hyperinflation." Even if one assumes that a hyperinflation in one of over a million scenarios occurs, can find in gold price models have significant effects: "Even if the inflation hedge of gold does not always work in hyperinflation can be obtained with gold the value," says Harvey. But if this unlikely scenario does not occur, the gold prices could fall dramatically again. Only when the economy deteriorate further, gold can shine on. (Luke Šustala, THE STANDARD / PORTFOLIO, 12/05/2012)

Study by Campbell Harvey: goo.gl/NKUD0

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