Dreams and golden light

To say that the gold market shows all the basic features of a bubble to burst is finally just too simplistic

Kenneth Rogof | 08/07/2013

Cambridge. - In principle, acquire and store gold is a form of insurance against war, Revelation full financial and currency devaluation. Since the onset of the global financial crisis, has often seen the price of gold as a barometer of global economic uncertainty. Does that mean the collapse of prices (from a peak of $ 1,900 an ounce in August 2011 to about $ 1,250 at the beginning of July 2013) a vote of confidence in the global economy? say that the gold market shows all the features basic bubble finally burst eventually is oversimplifying things. There is no doubt that the steady rise in value from about $ 350 an ounce in July 2003 mouth watered investors. And if it continues to rise, it would be because all are convinced that tomorrow will go up even more. Doctors and dentists began to sell stocks and buy gold coins. Demand for gold jewelry in India and China went through the roof. The emerging market central banks diversified their portfolios, reducing and increasing the gold dollar. Buy Gold had several attractions. Ten years ago, was sold well below its long-run average adjusted for inflation, and the integration of three billion citizens of emerging markets to the global economy could only mean big and huge boost to demand. Indeed, this aspect of the story is still valid. The global financial crisis increased gold's appeal, at first because of fears that it would produce a second Great Depression. Later, some investors feared that governments give vent to inflation to ease the burden of rising public debt and tackle persistent unemployment. As central banks took interest rates to almost zero, nobody mind that gold did not offer interest, so it is nonsense to say that the rising price of gold was a bubble. But it is also true that, with increasing increasingly naive investors were trying to get into it. course, in recent times have been invested fundamentals to some extent and even more speculative frenzy. The economy of China is softening its growth and India has fallen sharply over the past few years. By contrast, despite the bad decision that meant leaving activate automatic cuts, the U.S. economy seems to be recovering slowly. Global interest rates have risen 100 basis points since the U.S. Federal Reserve began to suggest, so rather premature, in my opinion, - that would reduce its policy of quantitative easing. Given that the Fed does nothing but emphasize their strong desire to prevent inflation, is more difficult to argue that investors need to resort to gold as protection against high inflation. And while doctors and dentists who bought gold coins two years ago and today they get rid of them, it is not clear yet where it has to stop the downward spiral. Some speak of the barrier of $ 1,000, psychologically attractive. Indeed, the arguments for or against gold have not changed much since 2010, the last time I had written on the subject. In October of that year the price of gold-par excellence, the resource-driven speculative faith-was on the rise, having just reached the $ 1,300. But the main reason to keep it was not, as today either, speculative. Rather, it was a protection. If you are a high net worth investor, or a sovereign fund, it makes perfect sense that some of its resources are at gold as a hedge against possible extreme events. Retain Gold also makes sense in poor and middle-income countries such as China and India, which significantly limited access to other

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financial investments. For most others, gold is just another bet to do ... and as with all bets, not necessarily one that will end up winning. Unless governments clearly set the price of gold as made before the First World War, their market will necessarily risky and volatile. In a study published in January, economists Claude Erb and Campbell Harvey considered several possible models of fundamental prices of gold and found that, at best, gold is associated with no great strength to any of them. On the contrary, tends to rise or fall much about their long-term fundamental value, for prolonged periods. (Behavior not unlike that of many other financial resources, such as interest rates or stock prices, although the gold price fluctuations may be even more extreme.) Sometimes scholars in the gold theme cite historical information suggesting that the long-term value of the yellow metal has remained stable over the millennia. For example, the study by Stephen Harmston in 1998 and quoted so often since then, anecdotal evidence suggests that an ounce of gold bought 350 loaves of bread under Nebuchadnezzar, king of Babylon who died in 562 BC Even if we ignore the fact that probably the Babylonian bread was healthier than refined products today, the price of gold today is not so different, perhaps equaling about 600 loaves of bread. course, not annual information we have gold prices in Babylon and we can only assume, given the wars and other uncertainties, which at the time, and like today, were quite volatile. So the recent drop in gold prices has not really changed the reasons to invest in this metal in one way or another. Yes, it is true that prices could fall well below $ 1,000, but could also rise. Meanwhile, the authorities should be cautious when interpreting the decline in gold prices as a vote of confidence in his policies.

-- --- Translated from English by David Meléndez Tormen Kenneth Rogoff, former chief economist of the IMF, is Professor of Economics and Public Policy at Harvard University. *www.project-syndicate.org*

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