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Gold prices are falling, but global demand is expected to grow



MICHAL CIZEK/AFP/Getty Images

As an investment and inflation hedge, gold still looks overvalued, at nearly 30 percent below its peak. But demand for gold is growing in India and China.

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by *Gigi Douban*

Marketplace Morning Report for Monday, May 20, 2013

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During the recession, **gold** became a safe haven for U.S. investors. And in the investment world, it's widely viewed as a strong hedge against inflation. But with stock markets soaring and inflation fears easing, the **price of gold is in steep decline**. It's off nearly 30 percent from its peak.

For anyone shocked at how much the price of gold has dropped, don't be.

"It turns out it's a very risky investment," says Campbell Harvey, a finance professor at Duke University. He says people who stashed money in gold have been spoiled by positive returns. He adds the real price of gold is way higher than it should be. Two years ago, gold prices topped \$1,900 per ounce.

"To revert to the long-run average," Harvey says, "the spot price of gold needs to drop to \$800."

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Ashish Bhatia, with the World Gold Council, says the price drop opens opportunities for new investors. And there's still plenty of demand for the metal itself.

"We've seen the physical demand from China and India virtually double in terms of tonnage demand from these two major markets in the gold market," Bhatia says.

He notes gold still has its place, just as long as investors don't put all their eggs into one golden basket.

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