Peter Schiff: Emerging Nations Will Buy Up World Gold Reserves

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By John Morgan

Gold's recent price sag is a minor hiccup in a longer-term rally for the precious metal, according to Peter Schiff, CEO of Euro Pacific Capital.

Schiff contends emerging market governments will drive the price of gold upward as they lessen their dependence on bankrupt developed nations.

Emerging market economies "are conspicuous for very small gold reserves, particularly in comparison to their much larger share of foreign currencies," he wrote in a commentary on his firm's website.

"Bankers and political leaders in all of these countries, particularly India and China, have lamented publicly about the very high percentage of U.S. dollars in their reserves, and have even spoken fondly about the reliability and importance of gold."

Mainstream investors may have ended their brief love affair with gold, creating a brutal season for the metal that is goaded onward by bearish comments from Goldman Sachs, George Soros and other loud voices, Schiff said.

But he noted that nations with the most onerous debt problems also tend to have the highest percentage of gold in their foreign exchange reserves.

Those countries include the United States, with the world's largest amount of gold in reserve at 8,133 tons and a very high percentage of gold in its foreign reserves at 76 percent, as well as such debtor standouts such as Italy (2,450 tons and 72 percent of reserves), France (2,435 tons and 71 percent), Portugal (382 tons and 90 percent) and Greece (112 tons and 82 percent).

Sooner or later, the debtor nations will need to sell their gold as their sovereign debt crises deepen, Schiff predicted.

And when they do, the emerging new creditor nations, such as India, China, Russia and Indonesia, will buy the gold in order to diversify their own foreign reserves, he said.

"Creditor nations that buy gold cheap from bankrupt nations forced to sell at distressed prices will see the value of their reserves swell, thereby gaining the independence and confidence they need to finally break their reliance on the U.S. dollar as their principal reserve asset," Schiff wrote.

"When the reign of 'king dollar' finally comes to a belated end, let's hope all the gold we allegedly have stored in Fort Knox is actually there. We're going to need every ounce of it."

An academic study, co-authored by former commodities portfolio manager Claude Erg and Duke University finance professor Campbell Harvey, published last June back-tested a ratio of gold to inflation to arrive at fair value of $800 per ounce, according to

MarketWatch columnist Mark Hulbert.

The study concluded the ratio, when expressed in terms of the U.S. Consumer Price Index, has averaged about 3.2 over time. Even at $1,400 an ounce, this ratio stands at 6.03, or nearly double this average, Hulbert said.

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