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Golden dreams dance

Two years down hundreds of dollars per ounce is not enough to confirm the price does not rise again, that's just proof that fluctuating gold market and potential risks.

Here is the article's author Kenneth Rogoff published in Business Standard last week, when gold prices continue thickness and comments can be predicted about $ 1,000 per ounce in the next two years.

Kenneth Rogoff is Professor of Economics and Public Policy at Harvard University. Photo: *Bloomberg*

In principle, holding gold as an insurance form of war, financial war and blood loss overall value for money. Right from the outset the global financial crisis, gold is often described as a measure of the unstable situation of the global economy. Thus, should we decline from a peak of $ 1,900 an ounce in August 2011 to $ 1250 beginning in July of this year can be seen as a positive vote for the global economy?

It would be oversimplification to say that the last gold market reflects all the classic characteristics of the phenomenon of price bubble burst. Gold rose to a peak of 350 USD per ounce in July 2003, has made investors drooling. Gold prices rise because people are convinced that tomorrow it up more. Doctors and dentists began to sell their shares to buy gold hoarding. Gold jewelery demand in India and China soared. The central banks in emerging economies buying up dollars in gold to diversify foreign exchange reserves.

The reason people buy gold with a convincing number of factors. Ten years ago gold was sold at prices lower than long-term average is adjusted with inflation. Three billion people in emerging markets to join the world economy also creates a huge boost for long-term demand for gold.

The global financial crisis has made gold more attractive as, firstly because it fears a possible crisis of the second world. Next, some investors are concerned that the government might untie inflation to reduce the burden of ballooning public debt and tackle persistent unemployment.

When the central bank's policy-making interest rates to 0%, then no one bother about gold not bring any profit. So that the gold price is rising bubble phenomenon is meaningless. But it is also absolutely true when the gold price increases, a large number of innocent investors sought to buy into.

Recently the fundamental problems of the economy have reversed in the gold rush was more than reversed. China's economy continues to soften, economic growth in India has decreased sharply in recent years. In contrast, despite financial cuts unwise, the U.S. economy is showing signs of partial recovery. Global interest rate level has increased a basis point since the U.S. Federal Reserve (Fed) starts would suggest withdrawing quantitative easing policy.

With the Fed's emphasis on inflation control its direction, it is hard to argue that investors should take gold reserves as collateral against high inflation. The doctors and dentists, who two years ago had to buy gold, they started selling this, and still not sure that the gold price will be lowered quickly terminated or not. Some people also aims to mold the gold price stands at the psychological $ 1,000 per ounce .

The fact that the arguments for or against gold has not changed much since 2010. In October of that year the gold price, excellent property speculation, is on the rise after reaching $ 1,300 hiccups. But the real reason to hold gold, then as now, the order is not speculation. Instead take the gold hedging. If you are a value investor with major assets, or as a stand-alone funds hold assets, it makes sense to spend a small percentage of your assets in gold to room if risks occur the extreme nature of the incident.

Stay Gold is also reasonable for the middle class and poor families in countries like China and India, while access to other forms of financial investment is limited. As in most other countries, gold is just another form of gambling that people can join. And, like all other forms of gambling, this is not necessarily a winning game only.

Unless the government firmly fixed prices for gold, as is often done before the First World War, the gold market will inevitably risky and volatile. In a study published in January this year, Claude Erb & Company Campbell Harvey takes into account a number of possible models for the basic price of gold, and they discovered that gold works best if only bound loosely on the model. Instead, gold prices tend to drift too high or too low compared to the value of its long-term base for a long period.

Those greedy gold sometimes cited fragmentary historical data for that long-term value of gold remained stable during the last millennium. For example, people often cite a 1998 study by Stephen Harmston indicated an anecdotal evidence that an ounce of gold could buy 350 loaves of bread at a time Nebuchadnezzar, King of Babylon, who died on 562 years BC. This example ignores the fact that Babylon bread then maybe add more bread today are highly refined, gold prices today are far too many are not, equivalent to 600 loaves of bread on the market .

Of course, we can not get the gold price index of the Babylonian year. We can only assume that, with the war and other things that are not clear, the price of gold on the market at that time, like today, is quite volatile.

Thus, the phenomenon of recent gold price decline has not really changed the reason people invest in gold in this form or another. Gold prices could easily fall below $ 1,000, but it can also back up. The policy makers need to be more careful to say that the price of gold dropped sharply as a vote of confidence for their way of operating.

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