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ECONOMY

FIRST LEVEL

# What drives the price of gold

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In principle, holding gold is a form of insurance against war, against a financial apocalypse and a generalized l
monetary value. And since the beginning of the global financial crisis, the price of gold has been seen as a bar
of global economic insecurity. So the price drop from a peak of U.S. $ 1,900 an ounce in August 2011 to just u
U.S. $ 1,280 on Friday, represents a vote of confidence in the global economy?

To say that the gold market exhibits all the characteristics of a bubble that burst is oversimplifying. No doubt th
intoxicating rise to the summit from those $ 350 an ounce in July 2003, had captivated investors. The price wer
today because everyone was convinced that it would raise even more tomorrow.

Some reasons for buying gold are compelling. Ten years ago, gold was selling for much less than its long-run a
adjusted for inflation. The integration of 3,000 million people in emerging markets to the global economy could
give a huge boost to demand.

That element of the story, incidentally, is still valid. The international financial crisis contributed to the fascinatio
gold, because, initially, the fear of a second Great Depression. And then, some investors fear that inflation pro
governments to mitigate the growing burden of public debt and combat unemployment.

When central banks have interest rates at zero, nobody is worried that gold does not give interest. So it is a no
to say that the rise in the gold price was just a bubble. But it is true that as the price rose, drew more naive inve

Lately, the fundamentals have changed to some extent, and changed even more speculative frenzy. China's e
continues to moderate, India's growth fell much compared to years ago. On the contrary, despite the misguide
automatic cuts, the U.S. economy seems to recover slowly. World interest rates rose 100 basis points since the
began to suggest, very prematurely, in my opinion, it would end its policy of quantitative easing.

With the Fed emphasizing his anti-inflation bias, it is more difficult to justify that investors need gold as anti-infla
protection. As doctors and dentists who bought gold coins two years ago and now they get rid of them is not ye
at what point will stop the downward spiral. Some point to the psychological barrier of U.S. $ 1000.

The arguments for or against gold have not changed much since 2010. In October of that year, the rising price
based speculative asset par excellence faith had reached U.S. $ 1,300. But the reason why people acquired g
and now, never was speculative. Rather, the gold is a hedge. If you are a wealthy investor, or a sovereign fund
perfectly meritorious retain a small percentage of their assets in gold as a hedge against extreme events.

Buy gold also makes sense for households in countries like China and India, for example, which limits access t
financial investments. For most other countries, gold is just another possible bets. And as with all bets, not nec

wins.

Unless governments to set the price of gold, as they did before the First World War, the market for this metal w inevitably risky and volatile. In a study published in January, economists Claude Erb and Campbell Harvey cons several possible models of fundamental price of gold, noting that gold, at best, weakly tied to any of them. You seems to go far up or down your long-term fundamental value for prolonged periods. This behavior differs fron other financial assets, such as foreign exchange rates and actions, although the fluctuations in the gold price a pronounced.

The recent collapse in the price of gold has not really changed the argument to invest in this metal in one direc another. Yes, prices could fall below U.S. $ 1000, but could also rise. Meanwhile, policy makers should be caut before interpreting the collapse of gold prices is a vote of confidence in its management.