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Gold worth 800 USD

Gregory Siemionczyk 07-07-2014, last updated 07-07-2014 17:25

Source: Bloomberg

This year's reflection in the gold market does not mean that it has a sell-off is over. "The fair" price of gold is only $ 800 per ounce, by nearly 40 percent. less than today.

This assessment is Campbell Harvey and Claude Erb, who half a year ago presented the gold pricing model gives very accurate so far indicate.

When Harvey and Erb presented their model, based, inter alia, on bullion trading relationship with the consumer price index (CPI) and U.S. bond yields, an ounce of gold cost over 1700 USD. Model suggested that this is too much.

Today an ounce of gold you have to pay about 1314 USD. According to Harvey, a professor of finance at Duke University, and Erb, a former fund manager's raw materials in the Trust Company of the West, it is still far too much. Their model suggests that the value of gold to the U.S. CPI significantly higher than the long-term average of 3.4, Ore. cheaper. Conversely, if the ratio is much below average ore used to get more expensive. Currently, the CPI reaches 237.1 USD, so the price of gold surpassed 5.6-fold. This suggests that the "fair" price of bullion is about 800 USD per ounce.

Harvey and Erb admit that the return of the real (referenced to the level of prices in the economy), the price of gold to the long-term average does not have to be monotonous and immediate. This means that in theory, the yellow metal may continue to get more expensive: so far from the beginning of the year has gained about 10 percent.

But the researchers suggest that the continuation of this trend is unlikely. Quotations ore are in fact also clearly linked to the profitability of U.S. 10-year bonds. As she grows, gold was used to cheapen. Meanwhile, current forecasts are one-sided: in connection with the signaled normalization of monetary policy by the Fed, the yield of 10-year-old will grow.

Model Harvey and Erb suggests that the yield of 10-year-old at 3 per cent., An ounce of gold should cost about 1200 USD. At the turn of 2013 and 2014, this forecast proved to be almost perfect. Since that time, U.S. Treasury yields dropped to about 2.6 percent., And consequently became more expensive gold.

Of course, bond yields may go up because of accelerating inflation. A widely regarded as the gold metal that keeps the real value, which is more expensive as prices rise. Harvey and Erb suggest, however, that this property ore has only in the very long term, calculated in decades. In the short term, his quotations are negative correlated with bond yields.
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