Why gold is losing its luster for investors

Gold bars are seen at the Czech Central Bank in Prague.

by Tracey Samuelson (/people/tracey-samuelson)
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The price dipped to a five-year low Monday. What caused the fall?

“Gold has totally fallen out of bed over the couple of days,” says Colin Cieszynski with CMC Markets. “There’s a number of factors that drive gold up and down over time and at the moment [for] all of them, the pendulum has swung to being a headwind for gold rather than a tailwind.”

People tend buy gold in times of uncertainty, as it’s supposed to be a safe haven and a hedge against inflation. But inflation fears are now down and – from Greece to Iran – uncertainty appears to be easing. Additionally, U.S. interest rates are expected to rise, which also puts pressure on gold.

“It’s like we’ve turned the corner, that there’s going to be continued growth in the future and the interest rates can go back to normal levels,” says Campbell Harvey, a finance professor at Duke University. “All of this implies that there’s less risk, there’s less fear, there’s less reason to hoard gold.”
Harvey views gold’s movement over recent days as relatively minor, in line with normal volatility for the precious metal. He also points to recent news that China is buying less gold for its reserves than previously thought. That lower demand translates to lower prices.

Additionally, supply has increased as the amount of gold being mined continues to increase, says Erik Norland, senior economist at the CME Group, a derivatives exchange. Unlike other precious metals, he says, there isn’t much use for the yellow metal coming out of the ground.

“Platinum, palladium, silver — they have very extensive industrial uses,” Norland says, noting silver is used in electronics while lots of gold just sits in vaults as an investment.