The historical relationship between gold prices and inflation - the perfect theoretical price would be $825

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The collapse of gold prices could settle at a price 75% lower than it was in 2012, according to a recent study by the Fuqua School of Business at Duke University.

Professor Campbell Harvey believes Historical trends suggest that gold could fall to a low level of $350 per ounce.

In 2012, when gold was trading at $1,700, Harvey professor had successfully predicted that the price would drop. He has published research showing that if gold had kept pace with inflation, it should stand at $825 an ounce. Since then, gold has plunged in value, losing more than $600 per ounce.

In his new study, Harvey reviews its forecasts. He argues that there is a significant risk that the price may fall to a level much lower than the $825 per ounce.

"Based on what we have seen in the past, gold could well drop to a level - very low - $350 per ounce," says Harvey.

Chart: Gold prices and the expected average values "high" and "low" in the "Golden Constant".

Source: Bloomberg. The expected price of gold is obtained by multiplying the value of the price index for US consumption the average real price of gold, the average nominal price of gold divided by the price index US consumer. Observations "high" and "low" are set by the historic values "high" and "low" real gold prices.

This very recent study, called The Golden Constant ("The Golden Constant") was co-signed with Claude Erb, a former asset manager.

The predictions of Professor Harvey are based on the historical relationship between gold prices and inflation data. Defined as "the real price of gold," the gold price is
adjusted over time in relation to inflation.

The average real price of gold increased by the consumer price index US - one of the common measures of inflation - provides a known indicator as the "golden constant". This assumption of "constant gold" suggests, in the very long term, the price of gold is driven by inflation and that price deviations from it will be corrected.

Harvey believes there at least two ways of perceiving the historically high level of the current real price of gold. The first is that the actual price will go to a mean reversion by the bias of "constant gold." For the researcher, the courses would lead to a price of about $825 per ounce.

But beware of over-correction! The gold prices could plummet even then much lower.

Fingers crossed for an ounce of gold for €1 with 500,000 ounces paper exchanged for 1 ounce of physical gold, and a DJ to 35000, 13000 to the CAC.