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Gold will set new record highs by Christmas
Chris Hart
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[miningmx.com] -- GOLD has finally done it and smashed through the \$800/oz level on rampant oil prices and a rather sickly US dollar, which fell to an all-time low against the euro at the same time.

The last time gold was above the \$800 level was in January 1980, when gold soared very briefly to \$850 on the Russian invasion of Afghanistan and the Iranian inspired oil crisis then.

Could the gold price exceed that level by Christmas?

The answer is an emphatic yes.

The dollar is under severe pressure and there are few fundamentals to support it from a further loss of value on foreign exchange markets other than looking "cheap".

Economic growth appears to be under pressure and US interest rates are converging with those of Europe.

Equity valuations are also relatively more expensive than those in Europe.

The loss of value of the US dollar is no longer just a cyclical phenomenon but has increasingly appeared to represent a permanent loss of value against its peers.



Chris Hart, Investment Solutions

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However, the Europeans are not particularly enthusiastic about its currency appreciation and look set to take measures to temper its advance.

The Japanese are also not enthusiastic about any yen appreciation and the Chinese have also resisted any advance of its currency.

The global currency market consequently looks troubled and we may be in the process of witnessing the beginnings of a full-blown global currency crisis.

If this is the case, \$800/oz may end up looking quite conservative over the next few months!

The current advance of the gold price must also be placed in perspective.

Almost six years ago, gold still languished below the \$300/oz level and its advance to 1980 levels has been encouraging.

However, 1980 dollars are not the same as 2007 dollars, as inflation has eroded the buying power of the currency over the almost three decades that have passed. In 2007 dollars the \$850 level would translate to \$2,280/oz.

In constant dollar terms, the current gold price is only approximately one third of the peak reached in 1980.

To get to that level requires imagination beyond the wildest dreams of your average gold bug. But then who would have thought that the oil price would be at \$95 in 2001 (the start of the current bull run in gold) when it was still below \$20/barrel.

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