The Changes in the Price of Gold and Why the Price of Gold Has Proved So Volatile

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Presently Gold is trading at an historical high; however, in spite of the beliefs of many people, gold refuses to break above its current high. As the quantity of money printed to date is surprising and as the debts of countries are at historical high, people would think that gold should now be blowing up in value.

The theory of associating gold prices to actual interest rates is not new, but currently it has become elegant because of its significance to the policy debate over Fed policy (Murphy, 2011, p. 1). Some calibrations from the policy indicate that whenever the dollar’s actual short-term rate is below two percent, gold rallies. Each time the actual short-term rate is above two percent the price of gold drops (Murphy, 2011, p. 1).

One of the factors that have completely changed supply’s cadence is a real loss of one of its main sources. In the last two years, gold sources from the central banks sales have totally dried up. The central banks have since turned out to be significant net buyers of gold. According to a research that was conducted by metals research, in 2011 central banks loaded their funds with 440 metric tons of gold. This radical implementation of changes by the central banks in their fiscal strategies has resulted in a big influence on the worldwide supply chain period (Yazdani-Chamzini, Yakhchali, Volungevičienė, & Zavadskas, 2012, p. 995).

The value of gold rose from $ 100 an ounce in the year 1976, to $850 by 1980. During this equivalent time period, the ten years note yield rose from seven percent to 12.5%. The answer as to why gold rose, despite the fact that minimal interests were increasing, is because actual interests were decreasing throughout that time frame. Generally, there has been a fluctuation in the price of gold. The point of focusing on 1976-1980 is that this time poses distinctive problems for the critics of gold standards, but not due to the reason that it is the only period available. On the other hand, the value of gold has also risen in the last dozen years from $250 in 2001 per ounce to $ 1,760. Like it did during the 1970’s actual interest rates are still decreasing and the central bank is keeping the assets rate well below inflation through this contemporary period (Yazdani-Chamzini, Yakhchali, Volungevičienė, & Zavadskas, 2012, p. 997).

Yazdani-Chamzini, Yakhchali, Volungevičienė and Zavadskas (2012)graphsthe price of gold alongside real interests rates, which shows that they move in the opposite directions. Particularly, when actual interest rates were perhaps negative in the late 1970s as well as 1980s due to greater annual price hikes compared to nominal rates, the value of gold was high. However, in the current crunch, there are also low actual rates of interest, for the reason that nominal interest rates are so low **(**Murphy, 2011, p. 1)**.**  On this understanding, gold is and always has been a great treasury bond: a long time asset that is perceived to be safe in the logic that its value does not trade at a discount from a treasury bond of the similar time, but instead trades at a premium.

Then again, the problem is not that product prices are volatile, but it is that the value of gold is volatile. However, a good portion of that volatility is due to the fact that people do not have a gold standard. People buy gold as a hedge contrary to fiat-currency inflation; moreover, the demand for gold above a definite baseline for industrial as well as jewelry fluctuates wildly. This is because different governments show different degrees of monetary fecklessness.

On the other hand, another appropriate reason why gold price has proved volatile is because the impending Fiscal Cliff is upon people. According to the case situation at Pento Portfolio Strategies, politicians act in their personal interests, rather than that of the nation, and avoid extreme spending cuts contained in the confiscation. A steep contraction in administration spending causes a severe depression to happen in the short term; however, it is totally vital for the long-term health of the nation.

Ever since the start of the gold’s bull market, its economic balance has come under extreme inspection. Demand has been on the increase as more and more stakeholders incorporate gold as a store of wealth. Besides the supply chain has made its best to meet this rising demand. But considering gold’s sharply increasing price over the past decade, it is evident that this market has been undergoing a foremost structural imbalance. In addition, the supply side of the equation has confirmed to be an attractively volatile realm, making it quite problematic to set the scale **(**Berich, 2009, p. 28)

Remarkably, this supply volatility is to a certain extent of a new phenomenon, as the main supply sources of excavation production, recycling as well as central-bank sales had been somewhat consistent and dependable in feeding demand for many years. However, for various reasons, this just is not the case anymore.

Then again, gold has proved so volatile because it has become dependent to the Fed’s actions. It has been increasing like the other markets when the Fed recommends that easy money is coming. This effect on gold tends to happen during downward consolidation or correction periods. Conversely, a few months gold was trading off at over $ 1900. There is not anything safe about purchasing high. If one bought gold in 2001, he or she got to ride a real bull period (Yazdani-Chamzini, Yakhchali, Volungevičienė, & Zavadskas, 2012, p. 999).

On the other hand, gold still remains to be an eye-catching safe heaven which makes more investors to increase their portfolio acquaintance to gold-related assets. This supports gold prices as shareholders seek substitute stores of price. In other words, as long as there is a drip, drip of bad political and economic news, more strong analysts reckon that gold values will creep higher. However, against this interpretation there are a rising number of voices venting fears that this bubble could soon explode (Yazdani-Chamzini, Yakhchali, Volungevičienė, & Zavadskas, 2012, p. 1004).

Suryavanshi (2010) says that it is a mistake for people to think that any investment will keep increasing forever, and, when the value of gold does fall or decrease, it could be far and fast. He further points out that people who believe gold is a secure haven have got it wrong. Gold has not always confirmed itself to be a safe asset and its price has suffered from high levels of volatility, which has resulted to shareholders losing or making large sums of money over very short durations (Yazdani-Chamzini, Yakhchali, Volungevičienė, & Zavadskas, 2012, p. 1001).

It is this instability that is causing anxiety at present, with the value of gold swinging dramatically in the current months. Sels Willem, the governor of investment strategy private bank points outs out that gold has become a much more volatile investment or asset which is likely to remain the case in the coming years.

Suryavanshi (2010) points out that gold has obvious attractions, however, it is simply too volatile to be deemed secure. The need for assets like gold as well as, gilts has made the prices to go up to the extent that they may no longer be so eye-catching to many personal investors.

The most current instance of the pathological influence fiat currencies have on produces was the flight to secure during the financial crunch that caused a flight to both gold and bonds, and to a lesser degree semi-monetary produces like oil to hedge to the inflation threats of those bonds. The high unpredictability of nominal produce value under a fiat currency also causes greater doubt about the anticipated actual supply and demand of those produces. This leads to scarcity scares as well as hording during times when inflation expectations have increased. This further adds to the volatility of the standard agricultural and industrial commodities (Twite, 2002, p. 123).

In conclusion, the article does not favor gold standards nor does it favor price stability, nor does it suggest that gold standards bring short-run price stability. The gold standards currently would be much worse than the past century gold standard, because commodity prices are today more unstable and may be for some time.

References

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