GoldCore

A COMPREHENSIVE GUIDE TO

THE GOLD PRICE

GoldCore

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Introduction

The gold price is one of the world's most closely watched financial indicators. It is widely quoted in financial media alongside major currency exchange rates, major stock market indices, sovereign bond yields and the oil price.

Although gold's daily price is familiar to precious metal owners and many market participants, it is not well known by the general public internationally as it is not reported widely in the non-specialist financial media.

Gold is used as a hedge against fluctuations in and the devaluation of currencies, particularly the U.S. dollar. There is a mistaken belief that gold is "quoted in dollars." This is not the case as gold is quoted in local currency terms throughout the world. The London AM and PM Fix prices are in U.S. dollars, British pounds and euros.

Given the importance of US markets and the dollar as the world's current sole reserve currency, traders most frequently quote the US dollar price and for simplicity and ease financial media tend to quote the dollar price of gold.

The gold price is one of the world's most closely watched financial indicators.

While the daily price of gold is known by market participants and observers, what is less widely understood is how the gold price is determined and derived, where the price is sourced from, and how the contemporary nominal gold price compares to historical prices and importantly, to the price of gold adjusted for inflation.

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The Global Gold Market

Gold is traded globally on a 24 hour basis. Since trading hours of gold markets around the world overlap, live gold prices are readily available at all times during the business week from late Sunday night to Friday evening GMT.

The current price is known as the spot price and is a price at which gold could be bought or sold in large volume for immediate delivery. The futures price is the price at which delivery could take place at a specific date in the future. Spot and futures prices are related with futures prices normally greater than spot prices. If a spot price is not available at a particular time it can be derived by discounting an actively traded near term futures price.

The larger the market, the more liquid it will be in facilitating trading and the more important it will be in terms of influencing the gold price. Some markets therefore are dominant in price discovery, in other words, setting the price. Other markets will use the current world price and are known as price takers.

The global over-the-counter (OTC) market is the largest gold market in terms of trading volume and is important in terms of setting prices. Trading on the OTC market is global and is undertaken directly between participants via phone and electronic trading platforms and not on an organised exchange.

Gold is also traded on organised exchanges, including futures exchanges such as the CME Comex in New York, and physical gold exchanges such as the Istanbul Gold Exchange. Some of the futures exchanges, notably the Comex, generate high trading volumes and contribute significantly to price discovery.

The Over-the-Counter Spot Market[1]

Although the OTC gold market is global, most of the trading takes place in the main financial centres of London, Zurich and New York with nearly all trades clearing through London. Additional OTC trading takes place in Sydney and Hong Kong. During trading hours market makers in the major centres quote continuous two way bid-offer quotations for spot gold as well as forward (future dated) transactions.

If, for example, the spot price is quoted as $1509.50-$1510.00, major customers of market makers would be able to buy at $1,510.00 and sell at $1,509.50. Spreads between bid and offer are very narrow in the OTC market due to high liquidity and high trading volumes. In practice, only large entities trade on the OTC market, such as mining companies, central banks, large jewellery manufacturers, institutional investors and ultra-high net worth individuals.

The pricing unit quoted by OTC market makers is the price for 1 troy fine ounce of gold, and is quoted in US dollars due to market convention. All references to ounces in the bullion market refer to troy ounces and never the common or avoirdupois ounce.[2] The OTC spot market price quote is for a standard dealing amount of between 5,000 and 10,000 ounces of gold, deliverable in London in Good Delivery bars.

[1] http://www.lppm.com/otcguide.pdf

[2] . A troy ounce is defined as 31.1034768 grams that is why, with 1000 grams in one kilogram, a kilogram of gold contains approximately 32.15 troy ounces.

This delivery unit is a bar specification that is defined and regulated by the industry's trade association, the LBMA. A Good Delivery Bar has a minimum fine gold content of 995 parts per thousand, usually referred to as a fineness of 995.0, and must contain between 350 and 430 ounces of pure gold.

The concept of delivery in London is known as loco London, loco signifying location. All gold trades conducted in the LBMA system are cleared through the clearing members of the London Gold Market through a book entry clearing system known as AURUM. The vast majority of gold trades cleared in London are not based on delivery of physical gold but represent unallocated account balance transfers between participants.

The London Gold Fix

The London Gold Fix is a gold pricing and trading exercise conducted twice a day by five of the market making members of the LBMA to determine a single trading price for all orders of the five participants and their clients.

london gold fixing

The current members of the fixing process, HSBC, Barclays Capital, ScotiaBank, Deutsche Bank and Société Générale, conduct the fix through a company called The London Gold Market Fixing Ltd.

LBMA

The gold fixing began in 1919 after the Bank of England negotiated a deal to market South Africa's gold output and sell it through NM Rothschild in London at a price agreed by the main London market brokers. Rothschild was the permanent chair of the Fix until it exited the gold trading business in 2004. Now the chairmanship of the fix rotates through the five member firms annually. There are two daily gold fixings, one at 10.30am and the second at 3pm. The afternoon fix was originally added when the London Gold Market reopened in March 1968.

The Chairman of the fix selects an opening price based on the prevailing market price and this price is communicated to all potential customers via the five member firms. All customer orders of a member are netted off and each member announces themselves as either a buyer or a seller and state the volume of gold they wish to buy or sell. Customers can remain in contact with the member trading desk during the fixing and can amend or cancel orders in real time.

There can be a large pyramid of orders at different prices in each member's trading book, but this can net out to a relatively small volume. The price is moved until the buyers and sellers match within a total of 50 bars (or 20,000 ozs.) All trades are then executed at the common fixing price. The fixing facilitates huge volumes of anonymous trading and the spreads are very low due to high liquidity. The fixing price is then distributed out to the market and is quoted in US Dollars, British Pounds and Euros.

There are two daily gold fixings, one at 10.30am and the second at 3pm.

As well as facilitating trading, the gold fixing process discovers a benchmark price which is used daily as a reference price for pricing a large number of commercial gold products, such as gold derivatives, ETFs and structured products, and as a valuation point for central bank reserve portfolios and institutional investor portfolios. As a reference price, the afternoon gold fixing price is thought to be the more widely used of the two fixes.

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Futures Market Gold Prices

The most important venue for trading gold futures is the CME Group's Comex futures exchange in New York. Gold futures trading started in 1974 after the US government lifted the ban on citizen gold ownership. Comex trading is done in a trading pit via open outcry followed by after-hours via an electronic platform called CME Globex. On Comex, the active contract months for gold futures are February, April, June, August and September.

Futures trading rarely results in physical delivery of metal, because the majority of trades are undertaken for hedging and speculation. However, physical delivery is possible, and the exchange maintains a number of depositories to store physical metal for delivery.

The Comex also publishes a daily spot settlement price for gold based on an end of session average price of the most active month's futures contract[3]. Some other futures exchanges around the world which trade gold futures include the TOCOM in Tokyo, the MCX in India, the Shanghai Futures Exchange and the NYSE Liffe exchange in New York.

TOCOM Tokyo Commodity Exchange

MCX METAL & ENERGY Trade with Trust

NYSE Liffe

[3] http://www.cmegroup.com/market-data/files/cme-group-settlement-procedures.pdf

Where is the Gold Price Established?

In total there are over 40 gold markets globally in such diverse locations as Sydney, Tokyo, Mumbai, Istanbul, and Sao Paulo but the three main pricing sources for the gold price are the global OTC spot price, the London Fixing price (also part of the OTC market) and the Comex futures price. Market data shows that the London OTC market represents nearly 87% of global gold trading volume[4], and the US futures exchanges an additional 10%.

A recent study of London fixing prices and Comex futures prices investigated which market contributes the most to establishing the gold price, and found that over a recent 25 year period, both markets, at different times, were responsible for price setting, with the dominant market switching back and forth regularly.[5] Another study looking solely at futures markets found that Comex gold futures dominated price discovery when compared to other futures exchanges in Tokyo (TOCOM) and India (MCX).[6]

Ninety five per cent of all trades in the OTC gold market are for gold held in unallocated accounts at LBMA member banks.[7] Unallocated accounts do not represent ownership of gold by the account holders but merely represent a claim

[4] "Loco London Liquidity Survey", Stewart Murray, Chief Executive, LBMA, Alchemist, Issue 63, LBMA
[5] "London or New York: Where does the gold price come from?", Lucey, Larkin and O'Connor, Alchemist Issue 68, LBMA
[6] "Information Transmission among world Major Gold Futures Markets: Evidence from high frequency Synchronous Trading Data", Fuangkasem, Chunhacchinda, and Nathaphan, August 2012
[7] http://www.lppm.com/lppm_memorandum-of-understanding.pdf

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on the bank to provide that amount of gold if the account holder so wishes. The LBMA trading statistics therefore do not necessarily represent physical vaulted metal being traded. Likewise, the majority of trading in gold futures on the Comex never leads to physical delivery and trading volume is large multiples of physically vaulted stocks.

This has led to a debate about paper gold versus physical gold, with one school of opinion labelling the majority of OTC and Comex gold trading as paper gold. The debate appears valid because although the LBMA backed OTC market and the Comex are the two dominant markets for establishing gold prices, they do not necessarily represent the supply and demand patterns of the physical markets.

This was illustrated quite forcefully in mid April 2013 when very large volumes of gold futures contracts were sold into the market over a short space of time causing the largest two day price drop in over 30 years. One trade alone was valued at over $20 billion and gold futures with a value of over 400 tonnes were sold in hours and this is equal to 15% of annual gold mine production.

The majority of trading in gold futures on the Comex never leads to physical delivery and trading volume is large multiples of physically vaulted stocks.

Since the Comex is one of the two dominant price setters, the world gold price was impacted heavily. However, the physical gold markets around the world responded positively to the gold lower price via unprecedented demand, which caused huge physical gold shortages at refineries and bullion dealers, and large price premiums over the world spot price in retail bullion markets.[8]

[8] http://www.gold.org/download/pr_archive/pdf/AES_media_alert_on_demand_pr.pdf

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Gold Price Ratios

Technical analysts and market strategists use the gold price in a number of well-known ratios as an aid to determining relative valuations for real assets independent of paper currencies and also for attempting to analyse market direction.

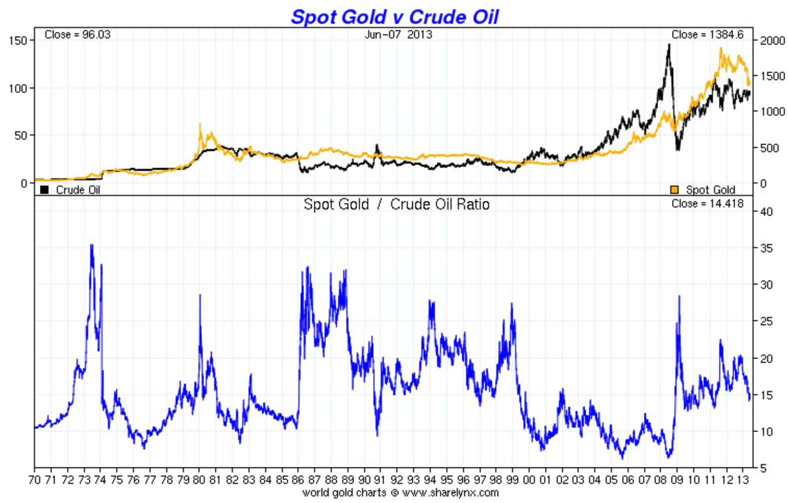

Chart 1

For example, in chart 1 above, comparing the gold/oil ratio to its long run average may help signal that the oil price is over or under priced relative to gold. As we can see in the chart above, oil and gold have followed similar trajectories since our modern fiat monetary system began in 1971.

Today the gold/oil ratio at close to 15 is right in the middle of its long run ratio. This has ranged from a high of over 35 during the first oil crisis in 1973 to a low of 7 in 2008 prior to the outbreak of the global financial crisis. Concerns of a global recession and potentially a depression led to oil prices falling precipitously and gold prices rising in value.

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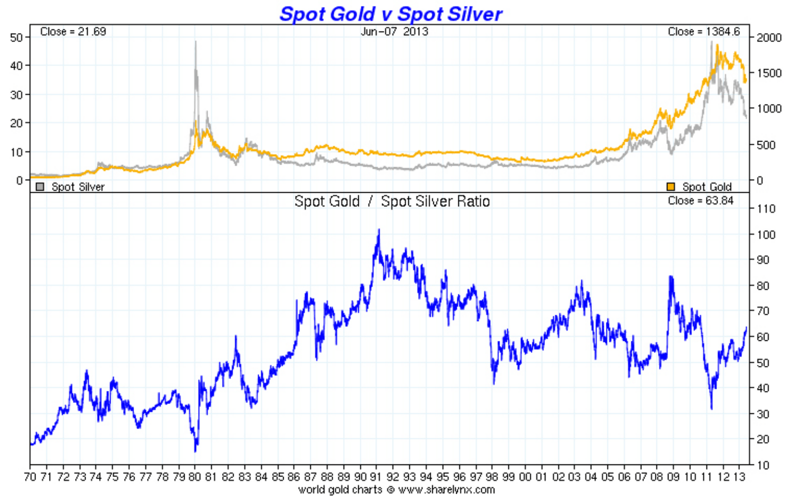

Chart 2

The gold/silver ratio, in chart 2 above, is another interesting ratio which helps investors determine which precious metal is cheaper than the other. Gold and silver are two very rare and finite metals and are the two precious metals that have traditionally been used as money.

It is estimated that geologically there are less than 15 parts of silver to every one part of gold.

This is one of the reasons that historically, monetary authorities and central banks throughout the world, set the gold silver ratio at close to 15 to 1. This meant that one ounce of gold could be exchanged for fifteen ounces of silver.

Today the ratio is over 60 to 1. This suggests that silver is cheap relative to gold. This is believed to be the case given the fact that a huge amount of silver has been consumed. Silver has been and is used in industrial production, whereas very little gold has been consumed as most of the world's gold is continuously recycled given its much higher value and its continuing use as a monetary reserve.

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Finally, stock market indices can also be expressed in terms of gold and illustrate relative performance, for example, the Dow/Gold ratio in chart 3 below.

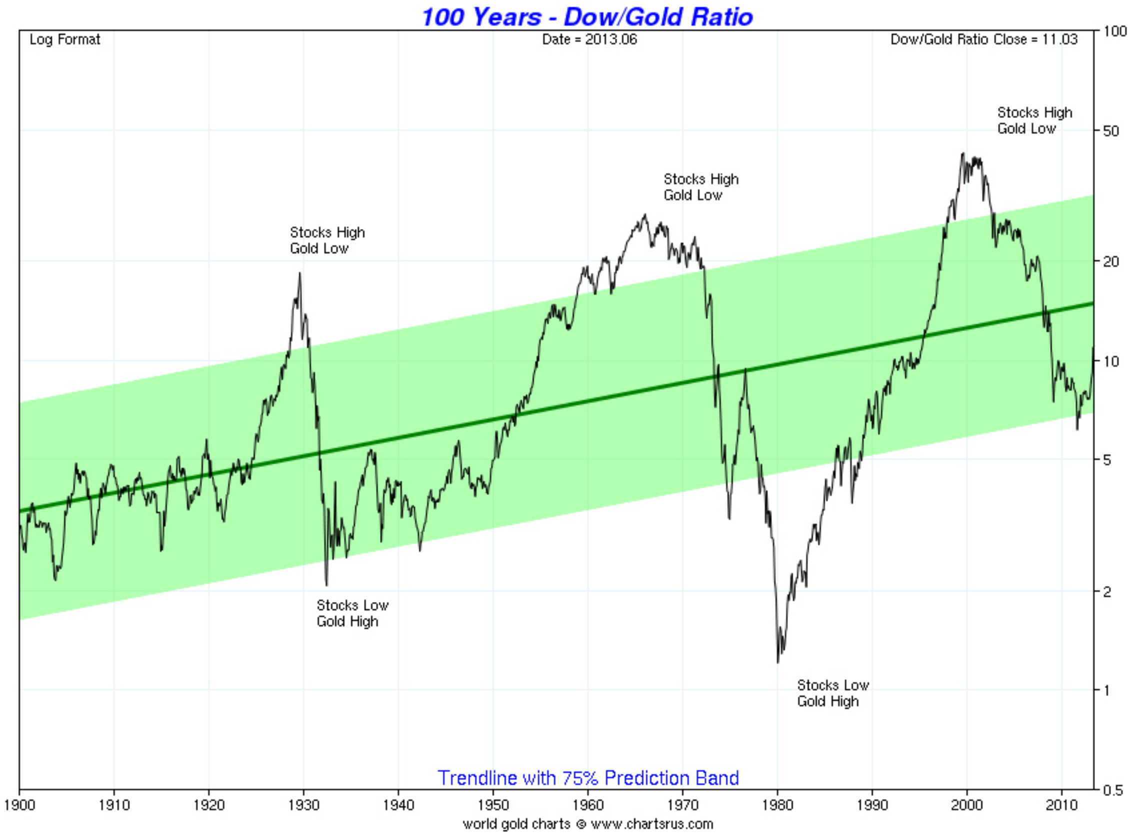

Chart 3

The Dow/Gold ratio is a good indication of how stock markets are performing in real terms and an indication of confidence and trust in financial assets.

The Dow Jones Industrial Average (DJIA) and stocks in the U.S. are seen as good value relative to gold at levels below 5 to 1 and bottoms in the stock market and highs in the gold price have often been seen with the Dow to Gold ratio between 1 and 2 as was seen in February 1933 (Dow/Gold Ratio of 1.94) and January 1980 (Dow/Gold Ratio 1.03).

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Bullish gold analysts believe that gold's bull market will end with the Dow Gold Ratio below 2 to 1 again. This would see the gold price rising to roughly half the price of the Dow Jones – meaning that the DJIA could trade at 8,000 to 10,000 and gold at $4,000/oz to $5,000/oz or some other version thereof.

These ratios are not guides and are merely useful indicators to be considered in conjunction with the real world fundamentals of supply and demand and other macroeconomic, systemic, geopolitical and monetary factors.

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Determinants of the Gold Price

While the economic fundamentals of gold supply and demand have an impact on determining the gold price, this has been shown to be only true in the short run. In the long run the price of gold is thought to be related to inflation expectations.

Some discussions of supply and demand concentrate heavily on quantifying the various demand and supply components and their price elasticity, and whether flow (annual gold supply) or stock (total gold supply) is more critical in influencing price. Other approaches seek to explain the factors that are thought to drive demand and supply. Both approaches are complementary.

The Components of Demand and Supply

Gold is viewed both as a monetary asset and as a commodity. As a monetary asset it is held by the official sector, such as in central bank reserve portfolios, and by the private sector either through hoarding or in investment portfolios. Official and investment demand is driven by the properties of gold as a store of value, as a safe haven asset, as a currency hedge, and as a portfolio diversifier.

As a commodity gold is used as a raw material input by the jewellery sector and other industries. This constitutes fabrication demand. Jewellery and other fabrication demand is seen to be more price inelastic than investment demand since jewellery demand is geographically diverse, and in other fabrication demand

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such as dentistry or electronics, the cost of the gold component relative to other inputs is relatively low.

The majority of gold ever produced is still held either in investment form or jewellery form. This means that above ground stocks of gold are huge compared to annual supply, making the stock-to-flow ratio very large. Gold supply is sometimes rather narrowly defined as annual mine supply, official sector sales and the recycling of above ground stocks, but on a broader definition it includes any mobilisation of existing above ground stocks such as dishoarding by investors, hedging or forward sales by mining companies, and gold leasing by central banks.

Mine supply is relatively inelastic due to long lead times for exploration and production, and the high capital intensity of the mining industry. But other supply can enter the market quickly since gold is easy to trade and the global gold market is highly liquid.

So it is possible to formulate a demand-supply equation for gold as a way of predicting gold price changes, the only challenge being in quantifying the various components and deciding how to treat the stock and flow aspects of supply. An alternative perspective is to examine the underlying drivers of the sources of demand and supply.

Gold is viewed both as a monetary asset and as a commodity.

The Factors Behind Demand and Supply

A recent World Gold Council study investigated the factors that determine the price of gold[9]. The study examined potential long-run and short-run determinants and found that over the

[9] "Short-run and Long-run Determinants of the Price of Gold" Eric Levin, Robert Wright, Research Study No 32, June 2006, WGC

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long term, that price is influenced mainly by inflation, but that in the short term, price fluctuations were influenced by supply and demand, which in themselves were driven by factors such as the US dollar exchange rate, the gold lease rate, credit risk, inflation volatility, and financial and political turmoil.

Another recent study similarly proposed that over the long run the price of gold moves in line with inflation.[10] But over the short run a number of other factors influence the price since they either increase or reduce demand. These factors included global income levels with the gold price rising as income levels rise, and financial system stress which causes a flight to gold as a safe haven asset, due to its low to negative correlation with other financial assets. Additional factors include real interest rates which increase or lower the opportunity cost of holding gold versus other assets, and central bank gold transactions and interactions with the market.

The Gold Price and Inflation

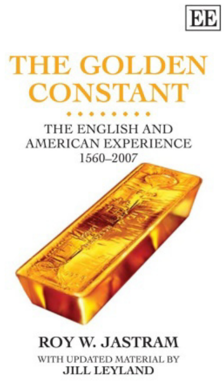
Since gold is rare and costly to produce, it cannot be debased and has no counterparty or default risk. Apart from fabrication usage, gold is produced mainly to be accumulated in large above ground stocks and acts as a liquid store of wealth. It is therefore viewed as a trusted and stable store of value.

Since gold is rare and costly to produce, it cannot be debased and has no counterparty or default risk.

Since the gold stock increases very slowly it is highly stable and the value of gold is highly stable in terms of goods. As inflation rise, gold retains its purchasing power. This means that the purchasing power of gold is nearly constant over long periods of time. As goods prices change, this is signalled through currency price changes, and since gold has an exchange rate with all other currencies, gold therefore acts as a barometer of inflation expectations.

[10] "The impact of Inflation and Deflation on the Case for Gold", Oxford Economics, July 2011

The ability of gold to retain its purchasing power and increase in price in line with inflation is directly observable. A researcher named Roy Jastram famously termed this the Golden Constant in his well-known book of the same title[11]. Taking very long periods of gold price data and general price level data for England (1560-1976) and the US (1800-1976), Jastram calculated an index of gold's purchasing power and found that it was constant over long periods of time.



[11] "The Golden Constant: The English and American Experience 1560-2007 ", by Roy W Jastram, updated by Jill Leyland. Elgar, 2009

The History of the US Dollar Gold Price

Gold has always been highly valued and used throughout history as both a circulating currency in the form of bullion coins, and as backing for other currencies which were convertible into gold. The history of the gold price is a history of the interplay between government decreed official gold prices based on the weight of gold within a given monetary unit, and the corresponding price that the market was willing to pay for that monetary unit. Historical gold prices are best viewed in the context of the prevailing economic and monetary systems of their times.

The Kingdom of Great Britain established a gold standard in 1717 on the recommendation of Sir Issac Newton, who as Master of the Mint, specified that a pound weight of gold, 11 parts fine gold and 1 part alloy be equal to 44½ guineas. This was equivalent to $84^{11}/_{12}$ shillings per troy ounce, or £4 4s 11d, which was about £4.25 per troy ounce. This official price was to remain in force for nearly 200 years. Newton also fixed a silver to gold ratio of 16 to 1 for circulating coins, based on accepted ratios prevalent at the time in Spain and Portugal.[12]

Soon after independence, the US Congress passed the Coinage Act of 1792 creating a bimetallic gold and silver standard wherein the value of the monetary unit, the dollar, was explicitly calculable in terms of fixed quantities of both gold and silver. A dollar was specified as 371.25 grains of pure silver. A fixed ratio of 15

[12] http://www.pierre-marteau.com/editions/1701-25-mint-reports/report-1717-09-25.html

to 1 was specified for converting silver to gold.[13] This gave the dollar a value of 24.75 grains of pure gold. And with 480 grains of gold per troy ounce, an ounce of gold was valued at $19.39.

The 1717 official gold price was to remain in force for nearly 200 years.

This fixed price remained in place until 1834 when a subsequent Coinage Act, implemented to more accurately reflect the relative market prices between gold and silver, re-specified the value of a dollar at 23.2 grains of pure gold, thereby altering the silver-gold ratio to approximately 16 to 1 and revaluing an ounce of gold to $20.67.

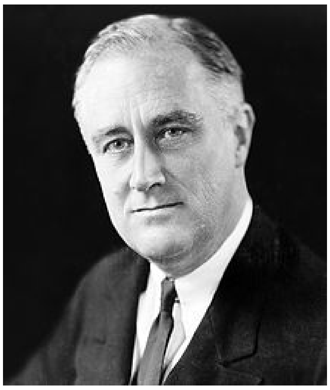
In the 1860s during the American Civil War, the US Government pursued deficit financing and a form of legal tender notes known as greenbacks were issued. These notes undermined the monetary system and were not redeemable into gold, so their value quickly deteriorated as more were issued. This caused general price inflation and eroded confidence in the notes, also causing corresponding spikes in the market price of gold in terms of greenbacks to over $30 per ounce over a number of years. In 1879 the US Government reverted to a gold standard, allowing convertibility into gold again at $20.67 per ounce, and the market price fell towards the official price.

During World War I and the interwar years when many other countries went on and off various gold backed standards, the US maintained its gold standard and the $20.67 official price remained unchanged. However, the advent of the Great Depression in the early 1930s led to a significant gold price increase in US dollars as the dollar was devalued from $20.67/oz to $35/oz.

This ended the golden era of gold price stability from 1792 through to 1933.

[13] http://memory.loc.gov/cgi-bin/ampage?collId=llsl&fileName=001/llsl001.db&recNum=371

The 1934 Repricing to $35 Per Ounce



Following Executive Order 6102 in 1933 which outlawed the private ownership of gold by US citizens, and the Gold Reserve Act of 1934 which vested ownership of all Federal Reserve Bank gold certificates with the US Treasury, US President Roosevelt issued a proclamation in January 1934 redefining the dollar as 15 $^{5}/_{21}$ grains of gold, nine-tenths fine (0.90 fineness), in other words 13.7 grains of pure gold per dollar, or $35 dollars per ounce. This represented a 69% dollar devaluation relative to gold. The US population could no longer own gold nor convert paper currency into gold.

The $35 official US gold price subsequently became the lynchpin for international currency stabilisation after World War II when the International Monetary Fund was established. In this gold exchange standard, each member country defined a fixed par value for its currency against gold or against the reserve currency of the system, the US dollar, which itself was defined as being convertible into gold at $35 per ounce. Foreign central banks and governments had to buy and sell gold at the $35 price, and could also convert their surplus US dollars into gold at $35 per ounce at the New York Federal Reserve Bank.

Defending $35 Per Ounce

The London Gold Market reopened in 1954 having been closed since the beginning of World War II. Although the official price of gold was $35 per ounce, the international free market price, as traded from London, often spiked traded above the official price in response to international crises and also on pure speculation about the ability of the US to maintain the $35 fixed price.

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On occasions when the market price spiked above $35, the Bank of England, backed up by the US, would on occasion intervene by selling gold, bringing the market price back towards the official price. However, concern was such that in 1961, the US, in conjunction with seven Western European central banks established the initially secret London Gold Pool, operated by the Bank of England on behalf of the consortium, and coordinated via regular central bank meetings at the Bank for International Settlements in Basle. This gold pool, which shared the cost in terms of gold bullion contributed to the operation, was both a selling and buying syndicate, and aimed to keep the London price within a tight range around the $35 rate.

Following a few years of relative success in subduing the price during currency crises and other speculative episodes, heavy speculative demand occurred in late 1967 and again in March 1968. This led to huge gold losses for the participating central banks and the suspension of the pool as well as a two week closure of the London Market.

The Two-Tier Market

So as to avoid further gold losses, the gold pool central banks devised a two-tier price structure while the market was closed, agreeing only to transact gold with each other at the official $35 price, leaving all other parties to trade at a market price. The $35 price therefore became a de facto floor price. Over the next three years, the free market price fluctuated between $35 and up above $40, but central banks could still convert dollars to gold at $35 per ounce via the gold exchange service of the New York Federal Reserve Bank.

In 1971, continued US deficits and massive creation of US dollars internationally precipitated a rush on US gold reserves by foreign central banks, and to preserve remaining US gold stocks, the US government suspended dollar convertibility into gold in August 1971, known as the so-called closing of the 'gold window'.

From 1933, the US population could no longer own gold nor convert paper currency into gold.

In light of these changes, international discussions on exchange rates during December 1971, known as the Smithsonian Agreement, led to a further 9% official devaluation of the US dollar from $35 to $38 per ounce. Some currencies began abandoning their fixed links and started floating in tight ranges against the dollar. With the free market price of gold remaining above $40 during 1971, pressure continued on the dollar, and the post-World War II exchange rate system began to crumble. Gold subsequently shot up to $70 in 1972 signalling continued dollar weakness.

The Floating Exchange Era

In February 1973 there was another 10% official devaluation of the dollar from $38 per ounce of gold to an official price of $42.22 per ounce. This devaluation did not calm markets and the dollar weakened again forcing foreign exchange markets to close for most of March 1973. When markets reopened, all major currencies began floating against the US dollar and the gold price rocketed, going as high as $127 during the year and to over $180 in 1974 on the back of the first oil price shock. In 1974 the US government also lifted the ban on US citizens owning gold.

The major Western central banks and finance ministries pursued a number of initiatives in the second half of the 1970s to de-emphasis gold in the international system. Gold was written out of the IMF's Articles of Association, and the IMF divested of 50 million ounces of its gold holdings through auctions and

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distributions to Members. These tactics had variable results, and although the gold price had a period of consolidation between 1975 and 1977, the price increases reignited in 1978 and hit new highs in early 1980 peaking at over $850 per ounce on investor demand, the second oil price shock, and heightened inflationary fears.

US Federal Reserve monetary policy was altered dramatically in late 1979 to tame inflation through interest rate increases. Consequently the gold price drifted lower and became range bound between $300 and $400 throughout the 1980s and into the 1990s. The extensive use of gold price hedging by gold miners and the growth of gold leasing by central banks in the 1990s also kept the price lower than it otherwise would have been.

Similarly, large gold sales in the 1990s by various Western central banks such as Canada, the Netherlands, the UK and Switzerland acted as breaks on any price gains since it introduced uncertainty into the market, and encouraged short selling and hedge fund speculation against price rises.

Despite the gold price hitting a multi-year low of $270 in 2000, that year also marked a turning point and the beginning of the current bull market in gold. A number of events are seen as marking this turning point, such as the launch of the partially gold backed Euro (the ECB stipulated that 15% of a member countries foreign exchange reserves be transferred to it in the form of gold). Likewise, the first Central Bank Gold Agreement in 1999, limiting gold sales of European central banks, created confidence in the market that the gold price would not be overwhelmed by unpredictable sales.

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Commodities also emerged in the early 2000s as a newly viable asset class and investor demand via products such as gold ETFs drove the price higher. The onset of the financial crisis in 2008 also acted as a positive price driver, with investors allocating to gold for its inflation hedging, currency hedging and safe haven benefits, as well as portfolio diversification benefits.

ECB stipulated that 15% of a member countries foreign exchange reserves be transferred to it in the form of gold.

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Conclusion

Gold has been used as money throughout history and many market participants increasingly view gold as a superior form of money. Gold's price is a good indication of the world's trust in fiat currencies. Rising gold prices suggest concern about inflation and currency devaluations and falling gold prices suggest confidence about the risk of inflation and currency devaluations.

Former Federal Reserve chairman, Alan Greenspan asserted in 2010 that gold prices are important to watch. Greenspan said that "gold is historically one of the rare media of exchange that doesn't require any collateral or backing, counter signatures and is universally acceptable as a means of payment."

The former Federal Reserve chairman noted that gold was a good way to know how stable the financial system is. "To get a sense of the stability of the system, watching the price of gold is not too bad," Greenspan said.

Gold's position as the universal store of value remains undiminished. Its global importance is underpinned by the fact that creditor nation central banks such as those of Russia and China are some of the largest buyers of gold in the world today.

Not monitoring or knowing gold's price can result in not having a complete understanding of international financial markets which can lead to poor financial decisions.

Gold's price is a good indication of the world's trust in fiat currencies.

Throughout history, there are countless examples of how those who did not own gold were wiped out financially. Today most people in the western world could not quote you the gold price, let alone do they own physical gold. This could again prove fatal to their financial health.

GoldCore

Written By

GoldCore.

About GoldCore

GoldCore are respected international bullion dealers who are experts in the execution and logistics of the highly specialised precious metals market. GoldCore have been providing precious metal investment solutions for an International client base since 2003. Today, our team of experts service all investor classes from private individuals to companies and institutional investors. Whether you are a small or large investor looking to take delivery or arrange for secure, trusted insured storage, GoldCore has a solution to suit your needs.

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