

**Despite recent setback gold fundamentals suggests \$1,500 price this year**

*Specialist precious metals analyst, Jeff Nichols, reckons that gold's fundamentals remain very strong and although there may be further short term falls in price, we can expect \$1,500 gold or more before the end of the current year.*

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LONDON -

Gold guru Jeff Nichols remains confident that the yellow metal will return to a rising path and still predicts a price of \$1,500 or higher before the end of the current year and that it will move higher still in the years ahead. Nichols has remained bullish on gold through its recent trials and tribulations, and his analyses carry some weight, although he is pretty much in the gold bug camp, at least for the time being.

Because of his medium to long term views on the gold price pattern, Nichols considers the recent falls offer an excellent opportunity to 'buy insurance against the very real possibility of future stock and bond market declines, accelerating inflation, a shrinking dollar and turmoil in U.S. and world financial markets.'

The basis for the prediction is that it is becoming apparent that the global economic crisis is far from over, despite the perhaps over-optimistic prognostications of politicians and some mainstream economists and Nichols feels a worrying 'double-dip' in the general stock markets is ahead as business activity continues to decline in the industrialized nations, employment continues to fall and consumer spending remains weak. Indeed he suggests that we are heading for a period of stagflation which he defines as a prolonged multi-year period of low growth coupled with high inflation.

Should this occur he feels that there will be a significant appreciation in gold and other precious metals, although perhaps the strong industrial usage element in silver and pgms may mitigate rises here, which he doesn't seem to have taken into account. Even so, movements in the silver price in particular seems to be tied to gold's coattails, but is much more volatile as seen in the past week or two when in percentage terms it fell far faster than its more valuable sister metal.

On what does he base these dire predictions for the global economy? Notably the potential 'bankruptcies' occurring across some EU member nations, while in the U.S. itself a number of States are in similar economic crisis and may require bailouts from the Fed. Both the U.S. Fed and the European Central Bank look as though they will have to monetize the public sector deficits of its most fiscally profligate problem children!

Nichols does not, however, rule out further price falls in the interim, but feels that the gold believers will take any such weakness as a buying opportunity. Meanwhile he points out that the recent price weakness has brought price-sensitive buyers like India back into gold purchasing mode and with a big lift in gold imports in January the country may well be already returning to its position as the world's No. 1 gold consumer, leapfrogging ahead of China, which overtook India in 2009. The Eastern nations have a propensity towards gold as a store of wealth and protection against hard times and it has an important role in the dowry system, hence the boost in demand during the traditional wedding season. But, Nichols also notes there seems to be an increasing move, particularly in India, for less traditional forms of gold ownership to be having an impact and these include the purchase of gold derivatives, small gold bars etc.

China, of course has also become a significant purchaser with the general public investing in gold as incomes rise, but it is the Chinese Central bank which is the big unknown here as its gold holdings are not transparent. It reports increases in its holdings when it is politically expedient to do so, and with the country now the world's No. 1 gold miner, and the metal being purchased by state entities, its capability of building up reserves unseen by Western observers remains strong.

Nichols reckons that reports from India suggest that January figures suggest that the country may have imported a massive 60 tonnes of gold in January - as consumers follow the path set by the Central Bank in its 200 ton IMF gold purchase - an enormous figure compared with the weak demand of the previous year. Chinese gold purchasing may well be on the up too, although Nichols does not feel it will have matched the India figure in January.

And then there is the Central Bank factor. There is a belief that a number of Central Banks may be considering raising their gold reserves which is a rapid turnaround from the banks being net sellers of gold as they have been in the past. As noted above China is perceived by many to be surreptitiously increasing its holdings and there has long been speculation that it is considering buying the remaining IMF gold on sale, although as we have pointed out on *Mineweb* beforehand it does not need to raise its reserves given the volume of domestic production. Nevertheless there is the feeling that China may step in if it can negotiate a purchase at a price below that India paid of \$1,045 an ounce. Overall Nichols feels that Central Bank interest will at least underpin the gold price and prevent it falling much below \$1,000 assuming even that it may indeed sink to that level.

So Nichols again paints a positive picture for gold and here it is worth including the key points from his analysis. He puts the major building blocks supporting a rising gold price over the next few years as follows:

- **U.S. monetary and fiscal policies** will remain extremely expansionary and, ultimately, inflationary.
- **Strong continuing central bank demand** for gold as more countries strive to diversify their official reserve holdings.
- **Expanding investor interest** in the United States and around the world - with more individuals and institutions viewing gold as a legitimate asset class, inflation hedge, portfolio diversifier, and insurance policy.
- **Expanding and maturing geographic markets** - particularly China, India, and elsewhere in Asia - where incomes and wealth are rising, new distribution channels are evolving, and new gold investment products are better meeting the needs of local populations.
- **Shrinking global gold-mine production** for at least the next five years.