Marc Faber, George Soros Agree Gold Prices Set To Rise
Dr Marc Faber

Is gold in a cyclical bull market that could last for years to come or is it another asset bubble created by loose monetary conditions about to crash? The debate has been raging for some time and shows no signs of abating.

But, the strange thing about this debate is that some of the perceived opponents may actually be more in agreement than they would let us believe.

Renowned billionaire financier George Soros became the latest investor to issue a warning in January that with interest rates low around the world, policymakers are risking generating new bubbles which could cause crashes in the future.

Last month it was revealed that Soros more than doubled his fund's holding in the biggest gold exchange-traded fund (GLD) in the fourth quarter of 2009, according to a filing with the US Securities and Exchange Commission.

Soros Fund Management LLC held nearly 6.2 million shares of GLD valued at about US$663 million as of December 31, adding 3.728 million shares valued at US$421 million That's up from roughly 2.5 million shares at the end September.

Speaking to The Daily Telegraph, on the fringe of the World Economic Forum, Soros said: "When interest rates are low we have conditions for asset bubbles to develop, and they are developing at the moment". The ultimate asset bubble is gold," he added.

So what's going on?

"Perhaps Soros thinks gold is going to bubble but the bubble is going to last for a while and he wants to profit from it," Jeffrey Nichols, managing director of American Precious Metals Advisors and an adviser to central banks and mining companies told Bloomberg.

"We could have a bubble but gold can reach US$2,000 or US$3,000 before it's over," Nichols said.

Faber: Gold bull

Marc Faber the Swiss fund manager and Gloom Boom & Doom editor has been consistent about his bullish views on gold.

Speaking at Russia's Troika Dialog Forum in Moscow last month, Faber said: "The governments of every developed economy will eventually default on their sovereign debts, so the one thing he will never do in his life is 'sell my gold'. Potential defaulter include the US, the UK and Western Europe.

"I'm convinced the US government will go bankrupt, but not tomorrow, and before they do they will print money [and] you'll get a depression with very high inflation rates."

In an interview with the Financial Times in Hong Kong last week, Faber said: "All paper currencies will continue to lose their purchasing power as they have over the last 100 years or so".

"I suggest that people accumulate gold. They shouldn't market-time the gold price, because we're going to have volatility...But I will not sell my gold, not for as long as [the current US administration] is structuring fiscal, monetary and foreign policies.

"In the US, I don't think we will have real [positive] interest rates at any time in the next 10 years."

Faber has said in many interviews that he sees dips in gold as an opportunity to buy some more bullion.

But how long can the gold bull market last?

"The gold bull market will come to an end when sovereign wealth funds - sick and tired of their investments in financial stocks - will finally purchase gold," wrote Faber back in January 2008 in his Gloom, Boom & Doom report.

What does the market think?

Traders remain more bullish than in past years, with speculative long bets on gold on the New York Mercantile Exchange outnumbering short wagers by more than 7-to-1, compared with less than 5-to-1 in the three years before the September 2008 collapse of Lehman Brothers Holdings Inc. spurred demand for gold's perceived safety, reported Bloomberg.

INTERNATIONAL. Is gold in a cyclical bull market that could last for years to come or is it another asset bubble created by loose monetary conditions about to crash? The debate has been raging for some time and shows no signs of abating.

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Central banks likely will expand their reserves for a second straight year, said CPM Group, a New York commodities researcher. The last time they added to stockpiles, in 1988, gold fell 15% and then took 15 years to recoup its losses, suggesting they may not be the best indicator of investment timing. Central banks hold about 18% of all gold ever mined, according to the news provider.

And bullion analysts?

Goldman predicts gold will reach US$1,235 in three months and US$1,380 in 12 months.

Barclays Capital says the metal will average US$1,235 in the fourth quarter. HSBC says it may peak at US$1,300 this year.

"I absolutely believe it's heading into a bubble, but that's why you buy it," Charles Morris, who manages US$2.5 billion at HSBC Global Asset Management's Absolute Return Fund in London told Bloomberg.

"A bubble is good," he said, forecasting the metal may rise to US$5,000 in five years to explain why 11% of his fund is in gold.

Mark Heyhoe, senior mining analyst at Westhouse Securities, told the BBC: "He [George Soros] has previously said that gold is the ultimate hedge against inflation - if you think inflation's going to rise, then I'm not surprised he bought into gold.

"A lot of people were starting to look at gold, and a lot of people follow what he does," he added. "But you need to buy a lot of gold to shift the price."

As well as raising its stake in SPDR, Soros Fund Management also increased its holding in Canadian gold producer Yamana Gold.

Soros more bullion friend than enemy

"If you actually hear what George Soros said - rather than taking headline writers for gospel - gold's Hungarian friend is less of an enemy than he appears," writes Adrian Ash in a BullionVault.com article.

"But it's just possible he was making rather more accurate use of the English language than [British journalists]..."

Ultimate in Hungarian translates into végs?

"Ultimate" means final. So does the Hungarian translation, végs?. It does not mean "mother-of-all"...not outside what was once called Fleet Street, that rat-run of hacks now scattered along the Thames but still a very long way from the language schools of Budapest," Ash, the editor of Gold News and head of research at BullionVault, adds.

"It's also worth noting, perhaps, that after escaping Nazi deportation in 1944, and fighting the occupation a year later, Soros is reputed to have begun his financial career trading currencies and jewelry amid the hyperinflation which then swept Hungary as its war-time economy and fascist puppet-government collapsed."

"By July 1946, the "ultimate" stage of that currency event - the worst-ever recorded inflation in history - shop prices were doubling every 15 hours. One gold Pengo coin, minted in 1931, was worth 130 trillion paper Pengos...," Ash concludes.