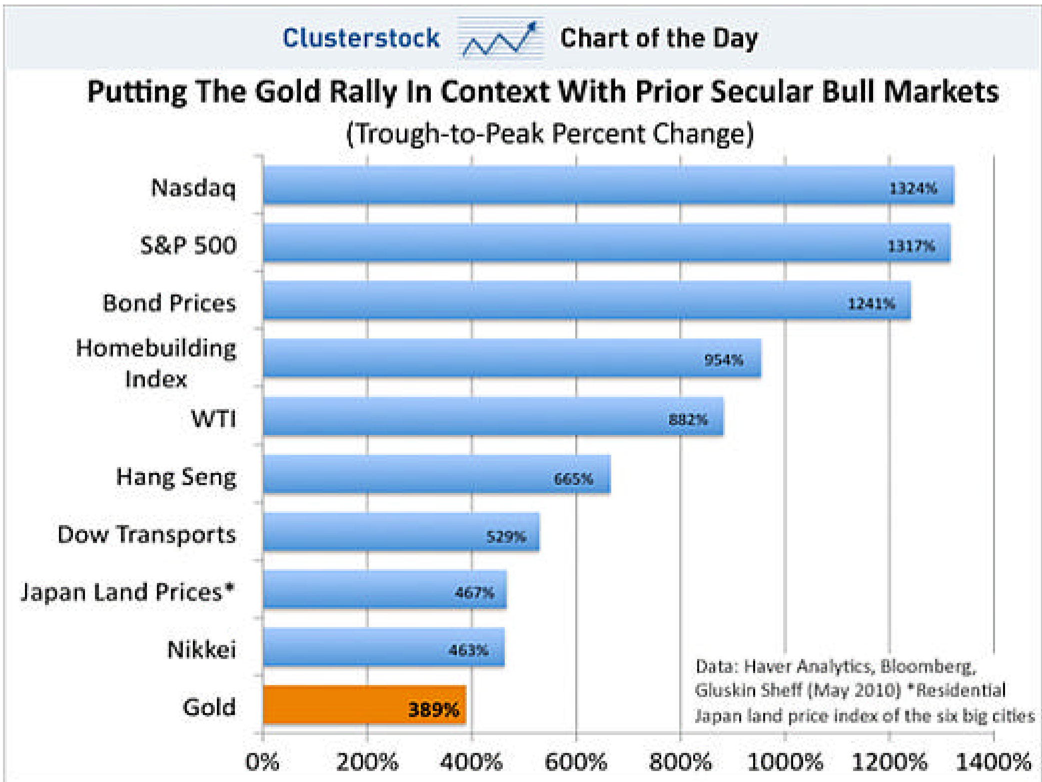
$3,000 gold price "may yet prove conservative," says Rosie

Posted by Prieur du Plessis under Gold, Investment

Although gold bullion is both a commodity and currency, it has lately become the world's currency of choice, i.e. a vote of no confidence in fiat paper. This is evident in the fact that the gold price has not only just made an all-time high in US dollar terms ($1,249 on Friday), but also in just about every other currency one cares to mention. I illustrated this in a post a few days ago, entitled "Meet the world's new currency of choice".

David Rosenberg, chief economist and strategist of Gluskin Sheff & Associates, shares my enthusiasm for the "barbarous relic", as it was once described. "While I am concerned near-term that gold is overbought and could be ripe for a setback; however, unlike the equity market, bullion is in a secular bull market, which means dips, when they occur, are to be bought. Gold can trade down to $1,130 an ounce and none of the trendlines would be broken," he said.

Here is the real interesting part of his analysis: "More to the point, secular bull markets usually end in parabolic blow-offs and we are nowhere near that point – see the chart below for what long-term trough/peak moves across different asset classes looked like in the past and tell us that gold is now in a bubble. Not a chance. And, as we have said in the past, if central banks were ever to be compelled to hold the same share of gold in reserves to back up their respective monetary aggregates, the gold price would rise to $3,000 an ounce."



Source: Clusterstock – Business Insider, May 14, 2010.

Rosenberg concluded: "Believe it or not, $3,000 an ounce on gold may yet prove to be a conservative forecast. If the gold price to world GDP ratio were to ever scale up to the peak three decades ago, it would imply an ultimate peak of $5,300 an ounce. Even better, if the relationship between gold and the M3 money measure where to revert to the 1990 high, gold would move to $5,700 an ounce. A more cautious projection would merely put gold on the same footing as the CPI, and heading back to the previous peaks in this ratio would suggest $2,300 as the peak in gold – only a double from here. Or perhaps the gold price-M1 ratio is one that should be considered and even here gold would go to $3,100 per ounce under the proviso that prior highs get re-established."

From across the pond, David Fuller (FullerMoney) added: My guess is that gold is no more than about halfway through its secular bull market, in terms of time. However this is certainly not a bankable forecast. I maintain that most very long-term forecasts are extremely inaccurate, mine included, and based on little more than trend extrapolations. My long-term view is based on the length of the previous secular bear market for gold (21 years) and earlier long-term commodity cycles. Last but certainly not least, there is the breathtaking issue concerning unprecedented printing of paper money by all countries or the central banks of their respective currency unions."

However, gold should be bought only on pullbacks, which are inevitable from time to time when faced with a short-term overbought condition as at the moment.

"Additionally, the overhanging possibility of further bullion sales from the IMF remains. Cyclically, gold's seasonal window of superior performance is beginning to close. Close observers of the gold cycle will know that the 2008 peak occurred in March and the 2006 peak in May. Finally, the biggest long-term threats to the gold bull trend will be higher interest rates. One could add that gold is expensive for jewellery and industrial uses, which is true, but investment demand is the crucial variable today and most likely in the future, at least until this secular bull trend ends," said Fuller.

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