Deflation is so destructive, people flock to Gold Investing for protection...

MANAGING DIRECTOR of New York's CPM Group precious metals consultancy, Jeffrey Christian is a leading commentator and analyst of gold, silver and the PGM markets.

Here he speaks to Mike Norman, anchor at HardAssetsInvestor.com, about the outlook for Gold Investment and the other precious metals...

Hard Assets Investor: At the same time as gold has been prices lately, the US Treasury market is also doing very well. How do you explain gold, which is an inflation hedge, going up alongside Treasurys, which I guess would be a deflation hedge?

Jeffrey Christian, managing director, CPM Group**:** Well, I think gold is going up, not so much because of inflation concerns – that's definitely in there – but it's currencies, it's financial market stability, it's sovereign debt in Europe. Gold is rising because financial investors are concerned about all of those factors. And I think Treasurys are doing strong for the same reason. If you think about it, the two hardest assets in the world are gold and Treasurys.

Now, it seems strange to think about Treasuries as being a safe haven with all of the problems that the Treasury had in 2008, continuing into 2009, and with the fiscal deficits and monetary easing. But the fact of the matter is, around the world, when people get worried, they run to the Dollar and to gold.

HAI: Right. The Dollar has been very, very strong of late. But is it true that gold goes up in a deflation?

Jeffrey Christian: Well, it's hard to say that it's true, because we've had very few real deflations in history, in recent history. The big deflation that we had coincided with the Great Depression. And gold came into the Depression on a fixed price. And there was so much investor demand for gold that the governments had to abandon the Gold Standards that existed in the late Twenties, early Thirties, and allow gold to float, at which point Gold Prices basically appreciated 60%.

A lot of people think that Roosevelt raised the price 60%, but he didn't. What he did is he kept raising the price until he found a market clearing price. So, he was really letting the market set the price for gold. And he had to keep raising the price until it got up to $33 before people would say, "OK, now I'll give you my gold."

HAI: Right...

Jeffrey Christian: And then if you take that deflation out, and you go back and you say, "What about other deflations?" we saw three bouts of deflation in the 1870s, 1880s and 1890s. And in each case, you saw a tremendous Gold Investment demand. So, it's not that gold makes particular sense during an inflation, but what you see in deflation is so destructive of economic sensibilities and systems that people flock to gold as a safe haven. They say, you know, "This could bring down the whole house of cards."

HAI: Let's talk about gold as an industrial metal, the fundamentals of supply and demand. How do they look?

Jeffrey Christian: If gold were just a commodity, Gold Prices would be lower than they are today, and the fundamentals would be pointing to even lower prices. You're starting to see mine production rise in response to the fact that we've had higher prices for a significant period of time now. We saw an increase in mine production last year. We're going to see it increase this year. And our view at CPM – which is somewhat contrary to a lot of other people in the gold market – is that you're probably going to see Gold Mining production rise pretty much year in, year out, for the next decade or so.

HAI: Isn't that bearish though?

Jeffrey Christian: That is bearish. That's what I'm saying. There's a tremendous amount of gold coming in from old jewelry that's being sold, and industrial demand, which is primarily jewelry, has fallen off sharply because of the high Gold Prices and the economic constraints facing the world. So if Gold Prices were determined by mine production, scrap and fabrication demand, Gold Prices would be headed lower.

But Gold Prices have never really been determined by those things. Those things are important to the price, but the key has always been investor demand. Gold Investment demand is now a very important part of the supply-demand dynamics. Ten years ago, investment demand was 15% of physical trade. Now it's 40-45% of physical supply and demand balance.

The problem is sustainability. What are the factors that are driving investment demand? Basically the whole host of economic and financial and political uncertainties. And as long as those problems are facing investors, investors are going to continue to Buy Gold. If we ever get to a situation where investors become less concerned about inflation, currencies, stock markets, bank stability, debt deficit, if we ever get to that point, you would expect Gold Prices to come down, because investors can walk away.

HAI: All right. So, give us your short-term, let's say, six-month, one-year outlook for Gold Prices.

Jeffrey Christian: Our six-month, one-year outlook for Gold Prices is we think that Gold Prices could be a little weak over the summer – June, July, August...

HAI: How weak is weak? You're talking about back down to...?

Jeffrey Christian: $1140 an ounce, maybe $100 off of where we are today. So, not that far. And, you know, not that far compared to where we were prior to, say, this year. And, on the up side, we're looking for a potential for the price to spike up to $1300. That's our range for the next, really, six months or so.

Buying Gold for investment today? Make it simple, secure and cost-effective by using BullionVault...
Hard Assets Investor, *21 Jul '10*

Hardassetsinvestor.com is a research-oriented website devoted to sharing ideas about investing in the natural resources sector. Published by Van Eck Associates Corporation, the site offers an educational resource for both individual and institutional investors interested in learning more about commodity equities, commodity futures, and gold – the three major components of the hard assets marketplace.

Please Note: All articles published here are to inform your thinking, not lead it. Only you can decide the best place for your money, and any decision you make will put your money at risk. Information or data included here may have already been overtaken by events – and must be verified elsewhere – should you choose to act on it. Please review our Terms & Conditions for accessing Gold News.